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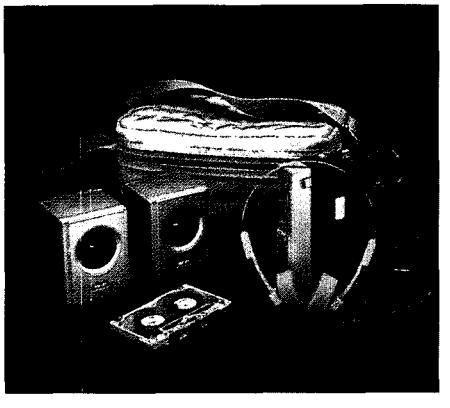

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Free Minds and Free Markets

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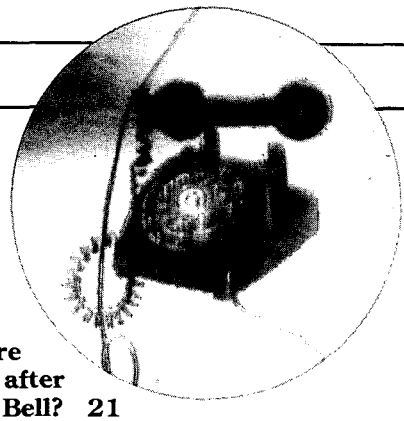

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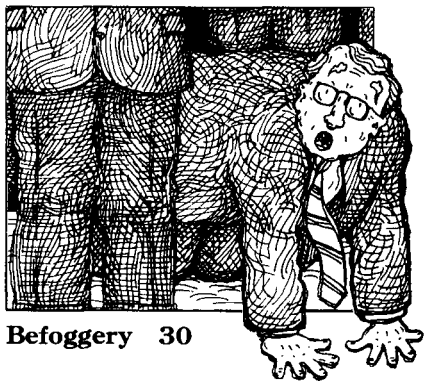

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Cover designed by Matthew Burbott; color photography by Bill Boyd; starlight by Joyce True

REASON (ISSN 0048-6906) is published monthly by the Reason Foundation, 1018 Garden St., Santa Barbara, CA 93101. Second class postage paid at Santa Barbara and additional mailing offices. **Postmaster:** send address changes to REASON, Box 28897, San Diego, CA 92128.

CORRESPONDENCE: Send *new subscriptions* and *address changes* (include address label and new address) to REASON, Box 28897, San Diego, CA 92128. (714) 485-6535. Allow six weeks. Send *manuscripts* (for return, include SASE), *letters*, and *classified ad orders* (with payment) to REASON, Box 40105, Santa Barbara, CA 93103. (805) 963-5993.

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ADVERTISING: For display advertising contact Robert Flickinger, 1018 Garden St., Santa Barbara, CA 93101. (805) 963-5993. For classified ads, see Classified page, this issue.

SUBSCRIPTIONS: Subscribers are members of the Reason Foundation. Membership is $19.50 per year. Outside North America add $8/year for surface; $36/year airmail. Payment from Canada: US dollar postal money orders only. Send orders to REASON, Box 28897, San Diego, CA 92128.

BACK ISSUES: Obtain list from REASON Back Issues, Box 40105, Santa Barbara, CA 93103. Vols. 1-4 are available on microfilm from University of Southern California Library Micrographics Dept., University Park, Los Angeles, CA 90007. Vols. 5 and up are available from Xerox University Microfilms, 300 N. Zeeb Rd., Ann Arbor, MI 48106. Indexed in *America: History and Life; Historical Abstracts; Public Affairs Information Services Bulletin*; and *Public Issues Index*.

NOTEs

REASON authors continue to be much in demand by other media. Patrick Cox, author of our June cover story on weather-service privatization, was interviewed on the Mark Scott talk show on WXYZ-Detroit. He has also been asked to do a report on private weather services for the Heritage Foundation. Meanwhile, John Doherty, of private airport control tower fame (May), has been asked to give testimony at hearings in Washington on expansion of the Federal Aviation Administration's program to contract out the operation of control towers to private firms.

There are still repercussions from our March article on the Chrysler bailout. Author Jim Hickel has prepared an expanded version as a Heritage Foundation Backgrounder. He also appeared on Barbara Studley's talk show on WNWS, Miami's number-one radio station. Finally, frequent contributor (and Reason Foundation Advisory Board member) Steve Hanke was quoted extensively in *Newsweek*'s July 25 cover story, "Battle Over the Wilderness," which also mentioned fellow Advisory Board member John Baden's Center for Political Economy and Natural Resources. Hanke was also interviewed recently on WCKY radio in Cincinnati on the subject of his August REASON article, "The User Fee Illusion."

Both Patrick's and John's articles were projects of the Reason Foundation Investigative Journalism Fund. In addition to doing more-traditional, exposé-style investigations, REASON uniquely assigns reporters to get the facts on little-known examples of market competence in traditionally government-run areas, such as weather and air-traffic services.

Coming up soon is an event for which I have a special fondness—the 11th Future of Freedom Conference. Like its predecessors, it will feature an impressive array of speakers and panelists, many of them known to you through the pages of REASON. Among them are Tom Hazlett, Karl Hess, John Hospers, Robert LeFevre, Lowell Ponte, Robert Poole, and Murray Rothbard (who's being honored at the banquet). Other speakers include Barbara Branden, Henry Mark Holzer, Irwin Schiff, Ben Sasway, and Butler Shaffer. The Free Press Association's second annual Mencken Awards will also be presented at the conference. It will take place October 21-23 at Long Beach City College. You can get all the details on FOF '83 by writing Larry Samuels at P.O. Box 4, Fullerton, CA 92632.

Summer has been a busy time for us here at the Reason Foundation. My own hectic pace of speaking appearances hasn't let up. In July I visited three cities, starting with San Diego where I assessed the impact of libertarian ideas at the 10th anniversary meeting of the Libertarian Supper Club. The next week found me toiling away in Honolulu (seriously, folks!). I addressed about 130 business leaders at the Jefferson Society's annual meeting, explaining how user fees could make Honolulu's public services more efficient. I also addressed the Libertarian Party's state convention and did several media interviews. Toward the end of the month I addressed two groups in Dallas. One was a forum on mass transit, at which Prof. James Ramsey of New York University (author of the proposal to sell off the New York subways) and I discussed the problems with massive new rail systems and explained the potential of free-market transit. August found me in Washington, D.C., along with John Chamberlain, Nat Hentoff, Steve Chapman, and Doug Bandow, taking part in a conference on journalism sponsored by the Libertarian Review Foundation, publisher of *Inquiry*.

Our Academic Program Director, Tibor Machan, has been keeping an equally hectic schedule. Recently he chaired the annual meeting of the American Association for the Philosophical Study of Society in Chicago and took part in a Liberty Fund colloquium on law and liberty. While teaching several courses in the Economics Department at the University of California at Santa Barbara and working on several new books, he also found time to give a pretrial deposition as an expert witness on business ethics in a case pitting Universal Studios against an independent producer. And he also addressed the Libertarian Law Council's monthly luncheon meeting in Los Angeles on the topic "Morality and Regulation." That, incidentally, is the subject of *Rights and Regulation*, coedited by Tibor and Reason Foundation trustee M. Bruce Johnson and due for release (from Ballinger) any day now.

—R. P.

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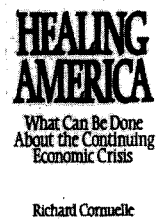
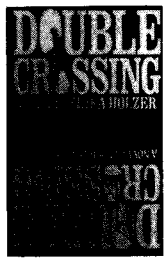
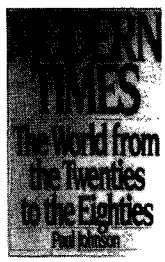


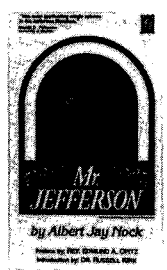
HEALING AMERICA: What Can Be Done About the Continuing Economic Crisis by Richard Cornuelle. Robert Nisbet calls this book, "the exciting fusion of social theory and highly practical and detailed recommendations. A grand book." Cornuelle charges that government efforts to provide stability and security are producing chronic economic crisis. He provides a survival manual for American society.
hd, 208p **$14.95**



DOUBLE CROSSING by Erika Holzer. This fast-paced thriller tells of one man's passionate fight to escape from Russia and the American couple whose lives intersect his. Holzer examines values and conflicting ideologies in each wrenching plot twist, building up to a nearly unbearable pressure point of tension.
hd, 304p **$13.95**



MODERN TIMES: The World from the Twenties to the Eighties by Paul Johnson. An anti-State theme pervades this dramatic and comprehensive narrative history: "By the 1980s, state action had been responsible for the violent or unnatural deaths of over 100 million people, more perhaps than it had hitherto succeeded in destroying during the whole of human history up to 1900."
hd, 817p **$27.95**



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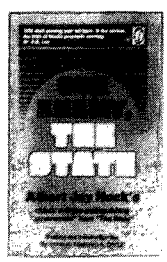
MR. JEFFERSON by Albert J. Nock. Preface by Edmund A. Opitz. Introduction by Russell Kirk. "It is accurate, it is shrewd, it is well ordered, and above all it is charming. I know of no other book on Jefferson that penetrates so persuasively to the essential substance of the man." H.L. Mencken.
pb, 202p **$8.95**



OUR ENEMY THE STATE by Albert J. Nock. Preface and Introduction by Edmund A. Opitz. Nock's brilliant critique differentiates between laws that protect our inherent rights, and the State, which perverts law to legally disadvantage some for the benefit of others.
pb, 109p **$6.95**

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Robert Poole, Jr.

A Giant Step for Statism

Its opponents include liberals like Ralph Nader and the United Methodist Church *and* conservatives like Rep. Jack Kemp and the Conservative Caucus. The "it" in question is legislation to increase the US contribution to the International Monetary Fund by $8.4 billion. After easy sledding in the Senate, it passed the House by just six votes in August. But no funds will flow unless Congress passes an *appropriations* measure, still being debated at press time.

Before you nod off, consider that this measure may affect *you* directly. Proponents claim that it will avert collapse of the whole banking system (and worldwide depression); opponents call it a prescription for renewed inflation and a bail-out of big banks at your expense.

Advocates of increasing the IMF's resources, including leading bankers and Treasury Secretary Donald Regan, make three appeals to Americans' self-interest. First, loans to Third World countries help finance international trade, and this country depends heavily on trade; IMF loans are said to be essential to avoid many governments' defaulting and thereby being cut off by the banks. But Robert Weintraub, chief economist of the Joint Economic Committee, points out that only $22 billion of this country's $220 billion in exports last year went to Argentina, Brazil, Chile, Mexico, and Venezuela—the countries most in danger of default. Even in the unlikely event that they *all* defaulted, trade with them would only be reduced, not eliminated. Moreover, as William Simon has pointed out, extending more loans which cannot be repaid is like a shopkeeper giving away money in hopes that some of it will be spent in his shop.

More serious is the fear of a worldwide banking collapse if the IMF cannot make additional loans. Although a handful of our biggest banks are overexposed and could conceivably go under in the unlikely event of simultaneous Third World defaults, the collapse of individual banks is not equivalent to a collapse of the banking *system*. Once people realized that most banks were still relatively sound, they would either spend or save the money withdrawn from the unsound banks—which would place the money back into the banking system. As long as the Federal Reserve kept the money supply from contracting sharply (which it failed to do in the Depression), Weintraub sees no danger of a banking *system* collapse.

Perhaps the most seductive argument for the IMF is that it, alone, has the leverage to force profligate Third World governments to adopt sensible economic policies, because further IMF loans are "conditional" on adoption of austerity programs. While certain aspects of the IMF's conditions are commendable—for example, cutting government spending and subsidies for consumer goods—other aspects serve to *increase* state intervention. Exchange controls, wage and price controls, interest-rate controls, and tax increases—all these are among the conditions being forced on countries by the IMF. Moreover, the IMF's aim of forcing countries to slash imports while boosting exports ignores the fact that a large share of their trade is *with each other*.

The IMF's prescriptions ignore the lessons of the Third World's success stories (Hong Kong, Singapore, Taiwan, etc.). What IMF-aided countries need is free trade, free markets, and low taxes—not IMF-imposed "austerity" programs that stifle entrepreneurship and virtually ignore their bloated, inefficient state-owned industries.

The opponents of IMF bailouts have additional arguments on their side. Bailing out big banks—like any other government bailout—will send a clear message to those firms to continue their profligate ways, because Uncle Sam is always waiting in the wings. And, Third World governments will also be encouraged to go on living beyond their means.

Moreover, as William Simon has noted, the more the banks and the government get committed to the mountain of Third World debt, the greater their stake in rekindling world inflation—to pay off the debts in cheaper dollars. And because the Treasury would have to borrow the $8.4 billion for the IMF in the capital markets, the effect is equivalent to a further increase in the already elephantine federal deficit.

What's the alternative, then? For the big banks, the unpalatable but quite feasible alternative is simply to face the fact that many of their Third World loans *are* uncollectable—and properly account for this fact on their books, as urged by George Champion, former chairman of Chase Manhattan. It borders on fraud for banks to continue to value these loans at face value as if they were collectable. Of course, many banks would show years of losses instead of profits for their shareholders. But why should all of us be forced to share in these losses via a bailout?

As for the IMF, it's long past time to reexamine its role as both lender *and* credit-rater. As Fred Smith pointed out recently in the *Wall Street Journal*, if Standard & Poor's performed both functions—for example, rating New York City's creditworthiness while simultaneously loaning it money or buying its bonds—the conflict of interest would be clear to everyone. Yet this is precisely what is entailed by the IMF's dual role. As a partner of Argentina, Tanzania, and Zaire, it is subjected to intense political pressures to compromise its credit-rating assessments and give in on its economic conditions.

In sharp contrast, Standard & Poor's deals with city governments at arm's length. It imposes no *conditions* on municipal bond issues; it simply evaluates a city government's financial management and calls a spade a spade. Instead of the IMF's all-or-nothing rating of fiscal soundness, S&P uses a 20-level rating system that gives lenders considerably more information about the borrower's financial soundness. Stripped of its loan-making power, the IMF could play a vital role as an international S&P.

Bailing out Third World governments, the IMF, and big banks would ignore such sensible reforms. It would constitute an endorsement of state-dominated Third World economies and of politicized international lending. And, like the Conrail, Lockheed, and Chrysler bailouts, it would insulate major companies from the consequences of poor management. In short, funding the IMF bailout would be a giant step for statism, both at home and abroad.

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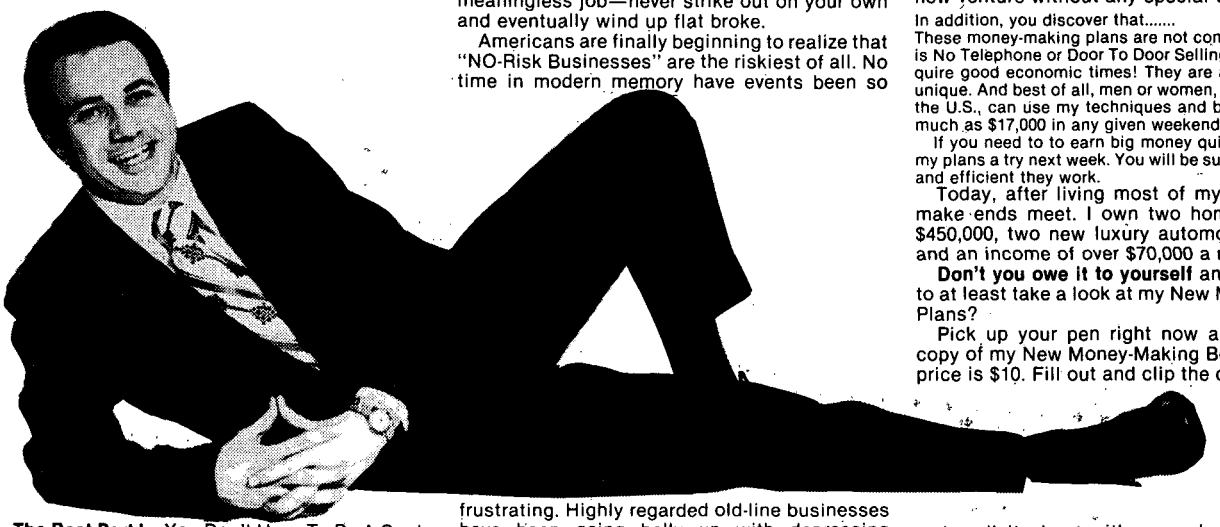

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I discovered years ago starting a venture and starting a profitable venture are two different principles at work. The problem in the U.S. today is the tendency to play it safe—get stuck in a meaningless job—never strike out on your own and eventually wind up flat broke.

Americans are finally beginning to realize that "NO-Risk Businesses" are the riskiest of all. No time in modern memory have events been so frustrating. Highly regarded old-line businesses have been going belly up with depressing regularity, millions of people are unemployed, and whole families are being forced out of their homes. Yet there are still so-called friends that will tell you—NOT to start a new venture—NOT to begin to carve out your own destiny. What is the meaning behind their madness?

Or, Most Importantly, what will they be earning next year or the year after? $100 a week?
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Some people in the coming months will score Big. Others will still be following the same, out of work, drummer.

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Fourteen months ago I put one of my new money-making plans into operation, and so far have deposited $1 Million Dollars in my bank. *My business financial statement will verify this.*

Last month alone I deposited **$71,264.03** and I could have easily made $4,000 more if I hadn't taken a few days off.

Bank Deposits for the past 14 months:

October	$127,684.46
November	$102,128.80
December	$83,277.54
January	$50,566.70
February	$53,995.54
March	$69,004.26
April	$77,466.79
May	$57,248.61
June	$54,448.71
July	$69,583.56
August	$72,937.06
September	$90,187.80
October	$82,904.75
November	$71,264.03

Was it A miracle? Or A lucky break? Not at all! These money-making plans are making this kind of money consistently and often.

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If you need to to earn big money quickly give one of my plans a try next week. You will be surprised how fast and efficient they work.

Today, after living most of my life trying to make ends meet. I own two homes valued at $450,000, two new luxury automobiles $45,000 and an income of over $70,000 a month.

Don't you owe it to yourself and your family, to at least take a look at my New Money-Making Plans?

Pick up your pen right now and order your copy of my New Money-Making Book. The Total price is $10. Fill out and clip the coupon below, and mail it along with your check or money-order for $10.

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I'll hold your check or money order for thirty days while you are looking over my Money-Making Book. If you decide not to keep it, mail the materials back and I will send your $10 dollars back to you, the same day, Uncashed, exactly the way I received it.

I'll even give you extra time, if you need it!

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Take a few minutes and think about what my money-making plans can do for you. Remember the amount of money I've told you I made with these plans is documented and can be backed up with bank records and financial statements from my Certified Public Accountants:
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Letters

Truly Private Schools

The editorial in the July REASON ("A Textbook Case of Bunk") started out well but was ultimately very disappointing. It is helpful to have the figures showing real increases in public school expenditures while results are deteriorating and the figures showing that private schools cost much less than public schools. But the analysis of the reasons for the dismal performance of the public schools and the suggestions for improvement ignore a critical point.

The fundamental reason for the public schools' failure is not their monopoly status; it is their *public*, that is, *government* status. There are sometimes monopolies in the free market (in the sense of one supplier for a good or service), but they don't necessarily provide bad, overpriced products or services—if they did, they'd probably quickly lose their monopoly status. In fact, if the public schools *weren't* a protected monopoly, they'd fail in the true business sense, and the failure would be much more evident—they would lose students by the millions. It is only because they are a government-run and -subsidized monopoly that they *survive*....

The editorial concludes that "if public schools were paid by their customers, on an even footing with private schools, only then would real reform be likely." I submit that if schools are *really* paid by their customers on an even footing with private schools, then they would *be* private schools—and that is what we should aim for. Tax credits or vouchers may move us toward that goal, particularly by helping parents, children, and teachers to become independent of the public school system, but they are at best a small first step; they don't fundamentally change (or, better yet, eliminate) the institution of public schools....

Sara Baase
La Mesa, CA

Satellites Sale Sequels

I read with interest your "Fair Weather" article (June) and have several additional points....

One of the arms of the National Oceanic and Atmospheric Administration (NOAA), the National Ocean Survey (NOS), is looking for new horizons because it has botched its job of providing coastal charts so bad that most people who need them use Department of Defense charts. NOS is planning 10 regional marine centers and would take over all marine forecasting responsibilities. Private enterprise better hurry, or there won't be much left!

Also of interest: There is a National Weather Service Employee Organization affiliated with the AFL-CIO. This group has long been critical of NOAA/NWS scientist managers, claiming the government spends enough money on weather but in the wrong areas for the public good. Recent testimony before a congressional subcommittee makes interesting reading. The union was active in getting resolutions passed in both houses of Congress preventing sale of the government's weather satellite without congressional approval, despite the Office of Management and Budget's A-76 procedures....

D. J. Kava
Beaumont, TX

The Road to Privacy

I don't remember having seen the "post office box" concept applied to the computerized billing of road users ("Hong Kong Paves the Way for Automatic Tolls," Trends, June). Buying and reselling ID numbers (requiring an easily changed car option), together with buffering the user from the original biller, could provide almost as much privacy as immediate cash payment. A user might also choose to buy several ID numbers.

David Hudson
Norwood, MA

Sobering Thoughts

There was one small portion of the Spotlight on John Dinkel (July) that bothered me—the off-the-cuff dismissal of anti-drunk-driving laws.

I believe that, contrary to Dinkel's opinion, "those who habitually drive with a few drinks under their belts" *are* problem drivers. A person playing Russian roulette in the privacy of his own home is minding his own business. When he leaves his house and starts pointing that loaded weapon at everybody else, it is my business. My rights—not only as a driver but even as a pedestrian—are violated by the *chance* a driver takes by drinking....

There is no guarantee that the person

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who has had no difficulty driving after two, three, or four drinks for 20 years will retain his immunity to the debilitating effects of alcohol. All drivers who have caused accidents have therefore had a first such accident; that they might have been driving for 20 years or more before it happened should merely be accepted as extraordinary good fortune for the people not killed.

As with Henry Hazlitt's parable of the seen and the unseen, the statistics on deaths are visible and seen, but there is no way we can be made aware of the people who were *not* killed because an intoxicated driver spent a few hours in jail instead of on the road. As both a driver and pedestrian, I accept the inconvenience of having to prove my sobriety in order to reduce the risk of allowing an inebriated driver on the road....

Dan Karlan
Waldwick, NJ

Free Costa Rica?

The sidebar in "The Freedom Factor" (July) lists Costa Rica as among "politically free" countries. That listing is miles away from the reality of it all. This country is second in the per capita amount of foreign aid it receives because of insane policies devised in the United States and carried out for the last 40 years. Costa Rica is the most falsely ballyhooed country in the Americas. It is the worst administered, the most crooked, the laziest, and so on far into the night.

Martin F. Lyons
Costa Rica, C.R.

Shaking 'Em Up At the Local Level

Your magazine is the most enlightening there is on the market today. I usually take it to my local union hall (Laborers 427) and let my fellow union members thumb through it. It's an attempt to let them know the other side of the picture and not just the same old union demagoguery.

Charles D. Phillips
Sioux City, IA

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brickbats

A sign of the times? The Girl Scout Council of Beaver, Penna., has brought charges against the parents of 14 Girl Scouts. What did Mom and Dad do to warrant this? The Girl Scouts say they failed to turn over more than $1,100 for cookies their little girls sold. The money represents 733 boxes of those scrumptious cookies at $1.50 a box. The girls sell the cookies, while Mom and Dad "borrow" from the proceeds, the Girl Scouts say. Is nothing sacred?

Don't forget to take off your hat when you enter Texas State District Judge Michael McSpadden's courtroom. He recently jailed a second defendant for not addressing him as "sir." You might say the judge takes his work a little too sir-iously.

A former New York City welfare official says his bosses ignored findings that Medicaid cards were being mailed to 14,000 people who were dead or missing. Herbert Rosenblum says the city disbanded his unit and demoted him last year after he alerted them to the error, which was costing taxpayers $2 million a year. He also charged that the city refused to act on other findings that Medicaid bills were being paid for about 1,600 people who had moved out of town and were therefore not entitled to benefits. City officials say that Rosenblum, a 23-year veteran with the welfare department, was demoted because his work was unsatisfactory. Is that because he kept his mouth shut for the first 22 years?

From the Irony Dept.: the only car in the antivandalism patrol of Rome, New York, was vandalized. The front window was shattered two hours after Rome police left it in the city garage. It was in the same garage where more than 30 parking meters were stolen last summer. Not to worry, though. Rome wasn't sacked in a day, either.

Indonesia's government has donated 25 sewing machines to former prostitutes to help them earn an "honest" living. The exprostitutes have received vocational training from the government. The donation of sewing machines reportedly has the hookers in stitches.

Kathleen Morikawa, an American teacher of English who is married to a Japanese university lecturer, faces up to a year in jail and an $800 fine if she's convicted in a Japanese court. Her crime? She refuses to press her left index finger on an ink pad. The law requires foreigners living in Japan to report to the authorities and submit to fingerprinting every few years. Morikawa went along with the imposition for a few years, but then she got tired of being treated like a criminal. The only Japanese forced to do the same are those accused of crimes. "In fact, unless a warrant for their arrest is issued, Japanese criminal suspects don't have to be fingerprinted. They must give their permission first," she says. Japanese officials are embarrassed by the case but show no signs of giving in. The "us versus them" mentality is strong. "This is a matter of national sovereignty. In order to control aliens, we need some identification system," says a spokesman for the Justice Ministry.

"You can't make an omelette without breaking some eggs." A British Broadcasting Corp. camera operator took the investigative reporter's credo a bit too seriously. The photographer was sent to film a nest of bird's eggs near a high-speed railroad track, blundered into the subject of his documentary, and scrambled it. All week long, express trains had been hurtling by at 75 mph, with nary a scratch on the eggs. Then along came the BBC's John Reay with his camera. Walking up to the tracks, he heard a crunching sound. And there was the nest—squashed under his feet. Filming wildlife can be exhilarating—but not for the wildlife.

New Jersey's county prosecutors have it made. The source of their "good fortune" is an obscure turn-of-the-century law that allows law-enforcement officials to impound any car, airplane, boat, or building used to facilitate a crime. Bergen County Prosecutor Larry McClure drives a Datsun 280ZX seized from a drug suspect, and Hudson County Prosecutor Harold Ruvoldt tools around in a 1983 Cadillac that was the alleged getaway car in a double murder. The seizures can take place at the time of the arrest. Property is returned to acquitted defendants, but they are *not* reimbursed for mileage or damage. The seized vehicles and homes are often used as bargaining chips to induce defendants to plead guilty in exchange for return of their goods. Asked if he felt guilty about driving the Datsun 280ZX—worth about $10,000 on the retail market—Prosecutor McClure said, "There's got to be some benefit to being in charge."

—MARK EDWARD CRANE

"SORRY, BUT YOU'RE HURTING OUR STEEL PRODUCERS!"

Only Way Left For Little Guy To Get Rich

Here Is the Uncensored Message My Wife Asked Me Not to Write

I love my wife. And I understand why she wants me to keep my mouth shut. She just wants to protect me from the IRS.

But I can't be quiet any longer. I'm angry. We are really getting jerked around. And I'm tired of it.

The government says one thing. Then does the opposite. Especially Reagan. And I even voted for him. One of my biggest mistakes.

First the feds talk tax cuts. Then they pass the biggest tax increase in history. Who are they kidding?

Average taxpayers, you and I, are getting screwed.

The new law doesn't bother the rich fat cats much. They still have loopholes galore. Let's face it. They always will.

But recently I ran across a workable angle. It's cheap. And it's legal. It's meant for the rich. But it's perfect for us little guys. You don't need any money. And we can get the same breaks the rich get.

I can hardly believe it. Catch this. I formed a corporation. Of my own. For peanuts.

It's my way of fighting back.

Now I have a small, one-man corporation. I operate out of my apartment. My work? I'm a commercial designer. Freelance. Brochures, fliers—stuff like that. On my income, I didn't think I could save much. But I'm paying almost zero taxes. And it's legit. Just like the fat cats do it. I have no guilt. Uncle Sam already gets plenty. Too much from all of us.

One thing the feds didn't bother much under the new tax laws—corporate tax goodies. Guess they figured right. Burden business too much. Result? No jobs for anybody. Including them. Not to worry. They know better.

From a buddy, I heard about this unusual book. It's called **How to Form Your Own Corporation Without a Lawyer for Under $50,** by Ted Nicholas. Damnedest book I've seen. Has the forms right in it. Pages are perforated. You just fill in some blanks and rip 'em out and mail them in. A couple of days later you've got a corporation. No wonder it's a best seller. (They tell me over 650,000 copies have been sold.)

No need to bring in other people. You can be President, Vice President, Secretary, Treasurer all by yourself. Just like me.

You know, lawyers charge $300 to $2,500 for incorporation. Talk about rip offs! And their secretary fills in the form—a single page with two blanks. Now you don't need a lawyer. And there is no hassle at all. It's simple. No wonder lawyers like you to think everything is so complicated.

You don't have to employ anyone either. Just by your lonesome. And I always thought corporations had to have lots of employees.

Oh well. Now I know.

Let me tell you something. I'm a skeptic. I *like* to shop by mail. But I've been ripped off in mail order. So, before I sent my check, I checked out the company. Called the Better Business Bureau. And the Chamber of Commerce. Found out publisher has a good record. And the book is guaranteed. So, what the hell. I spend that much on a few beers. That's how come I ordered it.

Damned if it didn't come in a couple of weeks.

I expected a shlocky-type mail order book. What a shock. Instead the book was typeset. Has a silver cover. And it's big. 8½ x 11.

I've had it for only three months. Already I've given myself all kinds of fringe benefits. Kind employer I am! Put in a medical reimbursement plan. A one-page form did it. Makes all my doctor, dentist and medical bills tax deductible—for me, my wife *and* my kids.

Now, my wife has been seeing a shrink. Guess living with me is no picnic. We deducted over $600 in the last two months alone. Also just got myself new teeth. Caps, I should say. Cost me $2,500. My son's braces figure to cost $2,000 next year. I can deduct it. Right off the top. And my wife and I are into special vitamins. Heavy. Those pills cost over 400 bucks. Couldn't get into them before because of cost. Tax-deductible now. Imagine this too. Right off the top!

Savings have been scarce for me. I have a helluva time saving bread anyway. But, with this little corporation, I'm really socking it away. How? First, I tax deduct any cash I don't need. A corporation makes this easy to do. And then I invest it. Interest and dividends are completely tax-free. Until I retire. In the meantime, I can even borrow the money back. So I don't lose the use of it like in an IRA or Keogh. This gimmick is called a Pension/Profit Sharing Plan. Again, I just filled in a couple of blanks on a standard form.

Now, I'm no financial genius. But I'll tell you this. I'll be a fat cat myself soon at this rate. It may not be as bad as I thought. Incorporation is the only way left. Now little guys like me have a shot at the big money.

This little corporation even covers my rear end. I could get sued. Everybody likes to sue these days. Something for nothing. And some judge might not like me. But you know what? The only thing anyone can get is what's in my little corporation. Big deal. A drafting table. A desk. And a little paper. Nobody can touch the real bucks. My home, cash, cars—even benefit plan monies are protected.

Maybe you've got some little business deal going. Or maybe you can get something started. Even a part-time business. This book can help. It can make the difference between just making it or operating just like the big boys. Even better, since you don't have their expenses.

For a real shot at big bucks, isn't it time you looked into incorporation?

It worked for me. So well that I wrote a fan letter to the company. They asked me to write this message. In my own words. But I did ask them not to print my name. Who knows? Maybe my wife is right. You can't be too careful. The IRS might want to hassle me. Even though everything is 100% legal. They may not like my message.

If you order now, the publisher will throw in a free bonus. A report called *The Income Plan.* Worth 10 bucks by itself. Shows you how to turn most jobs into a corporation. Outlines how to operate as an independent contractor instead of an employee. You can increase take home pay up to 40%. Taxes will no longer be withheld before you get your hands on the money.

Here is how to get your copy of **How to Form Your Own Corporation Without a Lawyer for Under $50.** And remember. Get the book. Look it over for 30 days. It will give you ideas. Lots of them. If you don't want to keep it for any reason, return it for a full refund. And keep your bonus. No questions asked.

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TRENDS

RESEARCHING PRIVATELY

You may remember synfuels and the Clinch River breeder reactor, and possibly even the gasification of chicken guano. These are only three of a multitude of shaky energy-research projects on which the government has squandered billions of taxpayers' dollars in the last few years.

In a recent Heritage Foundation study, Milton Copulos reviewed problems in government-sponsored research—such as indifference to cost-effectiveness. He concluded, "The systematic transfer of federal [energy research] activities to the private sector is indeed the proper direction to take."

But as desirable as this is, it's not casually accomplished. Energy research often requires heavy expenditures and long periods of time between a project's start and the creation of a commercially viable technology. This can make it very difficult for a single company to sponsor major research projects. But, as Copulos pointed out, solutions are available relying on private-sector mechanisms.

One already in existence is the Electric Power Research Institute, an organization that pools the resources of numerous companies. It's "been at the forefront of the search for new methods to generate electricity and...made major contributions to pollution control, power plant safety, and energy efficiency," Copulos wrote. With a $250-million annual budget, it has resources far greater than the R&D budgets of most utility companies.

EPRI's funding comes from voluntary contributions from roughly 80 percent of the nation's electric utility companies. Its research results are available to both members and nonmembers, but there's no question that contributing companies benefit enormously from the research.

Copulos's study suggested EPRI as a model for other industries—but others have already followed its lead, including the natural-gas industry's Gas Research Institute. And in 1982, 15 large users and makers of semiconductors formed an organization called the Semiconductor Research Corporation (SRC).

Like EPRI, SRC is a nonprofit corporation; it avoids product development; and it makes no attempt to keep the fruits of its research secret, according to the *National Journal*. Thus, it has circumvented a huge obstacle to joint R&D ventures—the antitrust laws.

In contrast, another new venture, the Microelectronics and Computer Technology Corporation (MCC), is "a genuine antitrust gamble," the *Journal* says. MCC's 12 member firms make no bones about their competitive goals. Its research is oriented toward development of new products; MCC will own any new patented discoveries; and new knowledge that MCC generates must be kept within the MCC membership for three years.

The risk MCC takes is substantial: if a competitor can prove in court that he has been "injured" by MCC, he can collect *triple* damages under present law. As antitrust lawyer Steve Olson told the *Journal*, "If and when MCC is successful in its research, there are a hundred thousand potential plaintiffs out there."

So can any for-profit joint R&D venture survive? Maybe. It could depend on the fate of legislation, such as that introduced by Sen. Charles Mathias (R-Md.) and Rep. Richard Gephardt (D-Mo.), that would give some form of antitrust immunity to joint R&D ventures. As of this writing, chances of passage this year are slim but still alive. REASON will keep you posted.

A HEALTHY DOSE OF COMPETITION

Do not be surprised if one day soon a white-coated person with a reassuring voice urges you in a TV ad to come on down to Hippocrates Hospital and have that hernia operation you've been putting off for so long, because, to your delight, Hippocrates is now offering a half-off special on hernia treatments.

Though the foregoing is a bit on the preposterous side—for now, at least—there does seem to be a glut of hospital capacity on the market. And competition in medicine, generally, appears to be on the rise, with consumers standing to gain. Among the signs of this growing trend are the emergence of new services in the medical marketplace, hospital and physician advertising, and cost competition.

In Las Vegas, for instance, after one major hospital recently cut its baby-delivery rates by 46 percent to help stem a steeply declining demand for that service, another area hospital soon followed suit. And several hospitals in Akron, Ohio, cut their emergency-room fees after some doctors in the area opened free-standing emergency-care centers that charged less than the hospitals.

Indeed, the rise of emergency-care centers, most of which specialize in serving urgent but noncritical cases, has been responsible for introducing and spurring much competition in the health-care field. While there were 400 or so of these facilities nationwide last year, there will be about 1,100 operating at year's end. Most are profit-oriented enterprises, established by doctors taking heed of the fact that 75 to 80 percent of hospital emergency-room cases involve noncritical conditions.

And why are doctors zeroing in on such opportunities? Because in the last 10 years the number of physicians in this country has shot up nearly 40 percent.

Another emerging service is the primary-care clinic, of which Humana, the nation's second-largest hospital chain—and, according to *Business Week*, a "model of success" in the medical marketplace—is a pioneer. By the end of the year, Humana alone plans to operate nearly 100 of its "MedFirst" centers, promoting them through full-page ads and mailings. Each facility leases space to several family-practice physicians who want to establish a group practice, and Humana provides them with administrative support, such as personnel and supply-purchasing services.

Competition always has interesting effects, and a recent one is the reemergence of the house call—with a new twist. SOS Doctor, a southern California company founded by a French physician, employs a staff of 35 doctors, who, in logo-bedecked automobiles, are on call 24 hours a day to make house calls. At charges of $60 for a day call and $100 for a night visit, SOS Doctor now averages 20 calls a day and soon hopes to increase that number to 100.

Also responding to the new competitive pressures are nonprofit hospitals, which are increasingly acting like for-profit operations. The most visible indication of this is the formation and growth of nonprofit chains, such as Voluntary Hospitals of America, a 52-member cooperative. The larger entities are better able both to diversify and to achieve certain economies of scale,

especially through bulk purchasing and cross-utilization of staff.

Even several of the professional societies, erstwhile eschewers of medical commercialism, have entered the competitive fracas. The American Academy of Family Physicians, for example, now gives its members a marketing kit called "Honing the Competitive Edge." And the American College of Surgeons has run full-page national ads promoting the virtues of board-certified surgeons.

The upshot of all this heady entrepreneurship is that the aggressive players, with their lower prices and more-efficient business practices, are pressuring others to upgrade their performance as well. And with the costs of health care—a $360-billion-a-year industry—rising at three times the rate of inflation, a strong dose of competition may be just what is needed to send that cancer into remission.

PAC-MAN PEDAGOGY

For parents and local pols fearful that video games like Space Invaders and Pac-Man are destroying kids' cognitive capacities, a recent conference sponsored by the Harvard Graduate School of Education might well alleviate their worries. According to participants in "Video Games and Human Development: A Research Agenda for the '80's," the effect of video games has been the exact opposite of what has often been claimed, indicating that the efforts of some citizens to restrict or ban them are misguided.

UCLA psychology professor Patricia Greenfield noted that the games' complexity encourages players to sharpen their ability at inductive reasoning. A child capable of dealing competently with the many variables in a video game is exercising complex cognitive skills, she argued.

It was also reported that video games can aid those with mental difficulties. Stephen Leff of Harvard Medical School reported findings indicating that the "mentally ill" are helped by the games' "massive capacity for eliciting attention." Such findings cast doubt on allegations that video games turn the insides of players' skulls into mush.

And David Brooks of the University of Southern California observed that arcades are probably not the corrupting drugs-and-alcohol havens often feared. On the contrary, the games encourage dryheadedness, he found after surveying almost 1,000 kids in arcades. He figures the reason is that those who play with sotted brains are likely to fumble and lose, rather than win.

MISSILE DEFENSE ON THE MARCH

In midsummer, the popular press was headlining reports of the successful intercept of five Sidewinder missiles by an Air Force airborne laser. Meanwhile, *Aviation Week* was reporting on more-fundamental progress in research on beam weapons.

Lawrence Livermore National Laboratory recently completed a second successful test of its X-ray laser device, powered by a low-yield nuclear warhead. Physicist Hans Bethe, long a skeptic on antiballistic missiles (ABMs), after a recent tour of Livermore had to admit that the X-ray laser weapon proposal "scientifically makes sense." And research breakthroughs on other laser systems include new ways to compensate for atmospheric turbulence, a new technology called a "Raman cell" that will permit scaling up of chemical lasers to very high power levels, and research on free-electron lasers of much higher conversion efficiency than other lasers.

What will all of this mean for the country's defense capability? Lawrence Livermore's Edward Teller has suggested that

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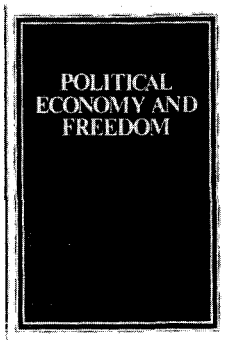

Political Economy and Freedom:
A Collection of Essays

By G. Warren Nutter
Edited by Jane Couch Nutter
Foreword by Paul Craig Roberts

The thirty-three essays in this collection illustrate the broad range of Nutter's thought. There are essays on the Soviet economy and international relations as well as essays exploring the economic institutions which support a free society.

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X-ray laser weapons *not* be based in space, where they might be vulnerable to attack, but instead be mounted on mobile Midgetman missiles in place of the offensive warhead. Upon warning of a nuclear attack, the missiles would be launched, placing the X-ray lasers in space, positioned to attack the enemy boosters.

Presidential science adviser George Keyworth also prefers ground-based systems, to reduce vulnerability and permit use of much larger power sources (without concern for their weight). Keyworth and other scientists envision hundreds of powerful ground-based lasers, aiming their beams at orbiting mirrors for redirection at enemy boosters and warheads. The mirrors would be launched into orbit on warning of attack.

These and other defensive system concepts are being reviewed by a presidentially appointed Defensive Technologies Study Organization, whose report is due in October. In addition to developing a long-term plan, the group is also examining near-term steps such as the High Frontier proposal (based on off-the-shelf, nonlaser technology) and a Lockheed-TRW proposal for a 5-megawatt, chemical laser system that could be tested in orbit against ballistic missiles by 1987.

According to Keyworth, the most important breakthrough has already been made—data-processing rates "that were inconceivable a few years ago, brought about by micro and integrated circuits." All that's needed in this area are "evolutionary" advances to apply this technology to ABM command and control, he told *Aviation Week*.

TUNING IN ON TV DEREGULATION

Federal regulations presently require network TV stations to set aside at least 10 percent of their programming for nonentertainment fare, such as news, public affairs, and educational instruction. And stations are limited to airing only 16 minutes of commercials each hour. But in June, the Federal Communications Commission proposed repealing these rules to allow broadcast TV more freedom to compete with fast-growing cable and other pay-TV services. FCC Chairman Mark Fowler called the long-standing program-content and advertising rules "censorship."

The FCC proposal would also free TV stations from the laborious task of surveying residents in their service areas to determine the community's programming "needs." In addition, stations would no longer have to keep detailed records of all aired programming.

In urging this latest TV-deregulation proposal, Fowler noted that most Americans now have access to almost any kind of programming they want, which further weakens the case for regulation. For example, 65 percent of all households can receive at least seven broadcast-TV signals, while only 26 percent could 20 years ago. And 70 percent of all US households now can receive cable TV, with half of those actually subscribing to cable.

Furthermore, as TV technologies develop, competition may come in markets where it hasn't been expected. One example is the possibility of direct-broadcast satellite (DBS) services entering areas already wired for cable. DBS service—in which subscribers, via a home dish-antenna, receive three to six channels from satellite broadcast—is mainly targeted at uncabled areas, many of them rural. But at least one DBS operator—Satellite Television Corp., which will start up service next year—sees an opportunity to compete with both cable and over-the-air pay-TV services.

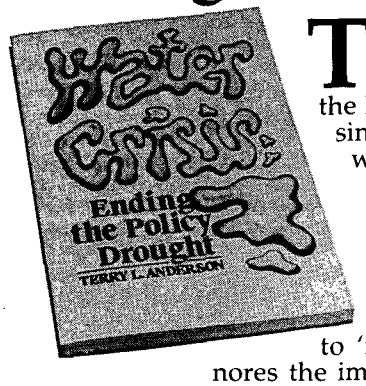
The edge for DBS is that with a subscribership area that spans a continent, the satellite service can economically cater to smaller segments within cabled markets. Cable operators, because they are limited to local markets, generally try to attract the largest segment of viewers, leaving those with narrower interests underserved. But for DBS, all these minority-interest viewers, on a national or regional scale, can add up to a profitable market.

Indeed, with innovative technology and aggressive marketing, the TV industry is rapidly diversifying. And the resulting competition enforces its own style of regulation in the "public interest": in order to get and keep viewers, TV programmers simply must provide fare that interests the public.

POPPING AIR-BAG CLAIMS

The US Supreme Court seems to think that air bags are the way to go in "passive restraint" auto-safety systems. Recently the Court handed down a unanimous decision rejecting a Department of Transportation (DOT) decision to scuttle

WATER CRISIS:
Ending the Policy Drought



The *Wall Street Journal* calls it "the issue of the '80s." *Newsweek* warns of "the browning of America." From the Peripheral Canal in California to the sinkholes in Florida, the approaching water crisis is increasingly on the nation's mind. Terry Anderson, a natural resource economist at Montana State University, offers a unique, free-market perspective on the issue that could be bigger than the energy crisis. "A refreshing contrast to 'market failure' analysis which ignores the importance of property rights institutions to the development of effective markets," writes Vernon Smith of the University of Arizona. ***$7.95. 121 pp.***

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a pending regulation requiring air bags in many cars. But elsewhere, there is still a lot of doubt about air bags as the system of choice if government is to mandate passive restraints (protective systems such as air bags and automatic seatbelts that do not have to be activated by passengers).

Sam Kazman, in an op-ed piece in the *Wall Street Journal* in July, pointed out that DOT's National Highway Traffic Safety Administration (NHTSA) has frequently made misleading claims and relied on inadequate and questionable statistics. Until the Reagan administration came to town, NHTSA was an ardent defender of air bags.

Kazman, an attorney with the Pacific Legal Foundation, complained that in 1977, for instance, NHTSA published a brochure describing air bags as "systems that protect automobile occupants from collision injuries automatically, without the need to fasten belts or to take any other action." Yet, noted Kazman, "the agency has long known that air bags alone don't offer full occupant protection but must be used together with manually buckled lap belts." And air bags by themselves (without a lap belt) offer little or no aid to a person in a side, rear, or rollover collision.

Kazman also reported that the agency was able to conceal for more than two years a 1976 study, *A Statistical Analysis of Air Bag Deaths*, that raised doubts about the value of air bags in preventing fatalities. It came to light only during Pacific Legal Foundation litigation against the passive-restraint rule.

NHTSA's most recent study of accident data concerning air bags was published in 1980. It analyzed crash data on 10,281 General Motors cars equipped with air bags and sold in the mid-1970s. The report assumed that NHTSA "knows of every fatality that has occurred in an air-bag car," Kazman pointed out. The agency may indeed know of most air-bag-equipped cars involved in *frontal* collisions, where air bags can be effective. But it is likely that *nonfrontal* accident fatalities are missed by NHTSA's reporting system, because if the air bags were not deployed during the accident, it's entirely possible that the car involved could be mistaken for a conventional vehicle without an air bag.

According to NHTSA's 1980 records, there had been six fatalities in air-bag cars, all in frontal collisions. But when dealing in single-digit numbers, even a single fatality more than those included in NHTSA figures would reduce the air-bag "effectiveness figures" by one-quarter, noted Kazman. And in fact, he reported two fatal air-bag accidents not counted by NHTSA.

So what is the lesson in NHTSA's misleading advertising, concealed studies, and "conveniently incomplete data"? It is that when a government agency is wedded to a cause, there's little to hold it back. In this case, Kazman observed, NHTSA—unlike the auto manufacturers—is "restrained by neither competition nor product liability." The air-bag issue, he concluded, can't be entrusted to NHTSA.

WASTE: A WAY

There's no question that the safe disposal of hazardous waste is an important environmental problem: Americans generate over 250 million tons of it annually. Conventional wisdom has it that the best way to deal with it is to add a layer to the sediment of government regulation. But analyst Paul Langerman points out in a recent Heritage Foundation study that there is another way—reliance on the private sector.

Langerman suggests that private-sector solutions "offer the best hope for effective and economical hazardous waste disposal." In support of this claim, he discusses several privately developed technologies that promise to make (or are already making) a big dent in the hazardous-waste problem.

For instance, Sybron Biochemical, a Virginia company, has developed a mutant strain of bacterial bugs that gobble up some of the most dangerous organic chemicals and digest them down into harmless components. Other bacteria have been isolated that can turn even highly toxic PCBs into carbon and energy sources.

Columbia University has developed a method called "toxiflex" that facilitates the conversion of toxic heavy-metal slag into valuable building materials. Batelle Columbus Laboratories in Ohio has developed an incineration process for burning wastes with low heat content. It can be used with chemical waste liquids, used oils, carbon black gas, and pulping-process clarifier sludge.

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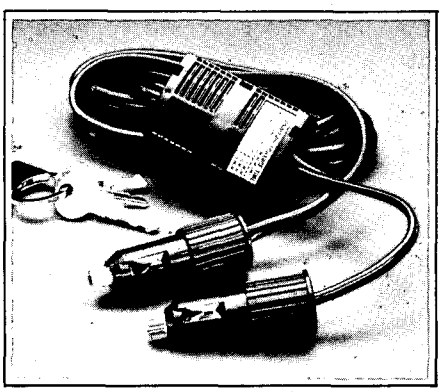
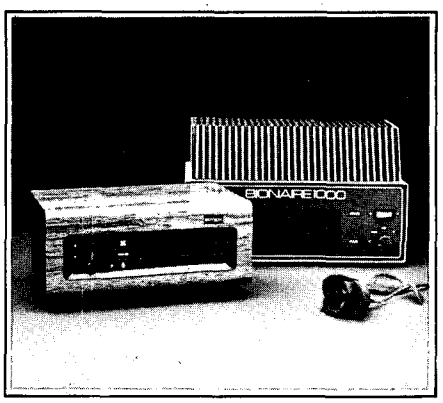


this process brilliantly by substituting connection from cigarette lighter to cigarette lighter. You just plug one end of the Easy Charge into the lighter of a running car, pass the 16' cord through both car windows and insert the other end in the lighter of the disabled car. After a few minutes' wait the battery is recharged sufficiently to restart the car. The Easy Charge is small enough to fit in the glove compartment. **$20.00** ($2.95) #A629. Two for **$37.00** ($3.95) #A6292.



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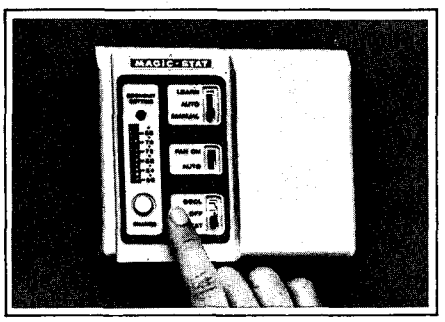
THINKING MAN'S THERMOSTAT



The basic method for reducing home heating costs is setback — turning down the thermostat at night and whenever you are out of the house for a few hours. The thinking man's thermostat — with a built-in microprocessor unit — lets you program the temperature you want and the time you want it, so the house is warm when you step out of bed. As for the "thinking," the unit senses the rate of heat loss for the house, so it turns on the furnace earlier on very cold mornings, later on warmer mornings. The program can accommodate 6 different temperature settings each day through a cycle of 7 days, so it is no problem to set up different schedules for workdays and weekends. Programming is simple — accomplished with a single button — but provides all the flexibility you need to tailor home heating/cooling to your particular schedule and lifestyle. A manual override can be used to respond to temporary changes in circumstances such as illness. Best of all, you can install it yourself in place of your present thermostat in about 10 minutes. No wiring to the furnace, just fasten existing thermostat wires to a color-coded connector panel. All you need is a screwdriver and a 9-volt battery (for backup, so you don't lose your program in a power outage.) You are protected by 3 guarantees: (1) our usual 30-day no-hassle guarantee; (2) the manufacturer's performance guarantee, money back if you don't save the cost of the unit in the first year of operation; (3) a limited 3-year warranty on the product itself. The unit also qualifies for the 15% energy tax credit. The thermostat works just as effectively with central air conditioning. **$79.00** ($3.95) #A855.

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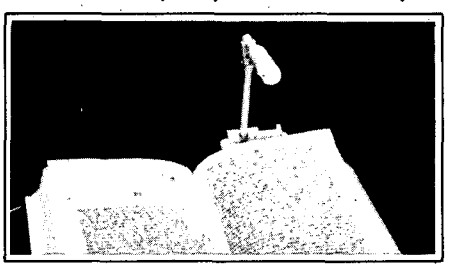

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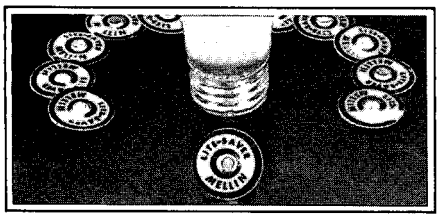

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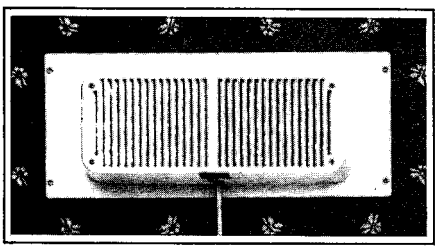

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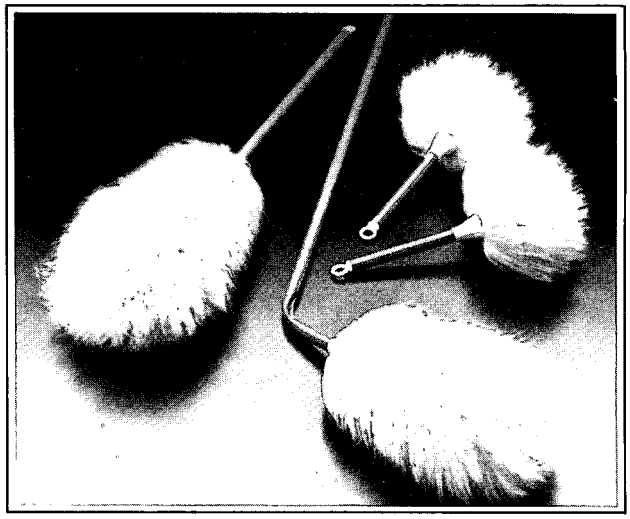

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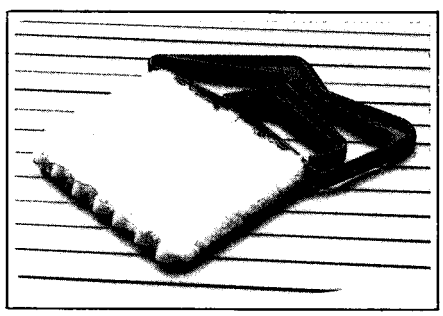
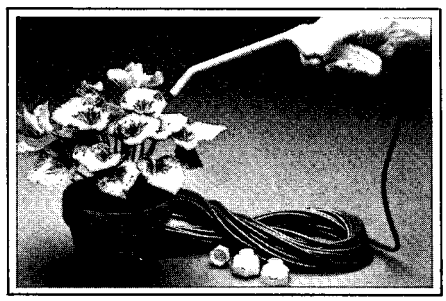


WATERING WHIZ



Now you can water all your plants in a single trip with this handy indoor garden hose. This 50′ vinyl hose comes with a set of four adaptors that readily attach to most indoor and outdoor faucets. From there you just take the water where you want it — an easy-control handle allows you to turn a splashless stream of water on and off as needed. There's a snap-in misting attachment, so after you water the roots you can spray the foliage. The kit costs **$11.00** ($1.95) #A681. Two for **$19.00** ($2.95) #A6812.

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Some enterprises are recovering by-products of hazardous waste, reprocessing them, and reusing them. For example, a Monsanto plant in Pensacola, Florida, is blending limestone with acidic chemical factory wastes, then putting the mixture in exhaust stacks where it removes up to 95 percent of the sulphur from the stack gases.

As Langerman concludes, "Congress must remember...that the goal should be to clean up waste, not to create a hazardous waste bureaucracy....Washington, unlike Father, does not necessarily know best."

The vitality and innovation of private entrepreneurs working with the hazardous-waste problem is persuasive evidence of where solutions to environmental questions can best be found—and it's not in government regulation.

DELIVERING REFORM?

For champions of waste, mismanagement, and inefficiency, the Postal Service must be a source of comfort. Despite extensive unpopularity, the Postal Service manages year after almost every year to lose money, provide lousy service, and stave off virtually all challenges to its legal monopoly status.

In the last few years, there have been some proposals for reform, but naturally, nearly all have come from outside the Postal Service. So it was a surprise to see an op-ed piece in the *Washington Times* in early June, "The Privatization of the Postal Service," written by John Crutcher—a commissioner of the Postal Rate Commission.

Crutcher pointed out that the Postal Service's operation is currently "stodgy and barnacle-encrusted, encased in reams of regulations and work rules, making it so unwieldy that it is probably incapable of responding to the challenges ahead." He added that "recent comparisons with industry tend to show [the Postal Service] is unnecessarily costly in terms of employee wages."

Crutcher contended that one of the most practical remedies for these problems would be to "privatize large segments" of the USPS "by contracting out a big part of its routine activities and services." Crutcher would start with bidding out rural carrier routes to private entrepreneurs: the lowest bidder meeting Postal Service criteria would get the route.

Although Crutcher suggested that this process take place incrementally, he says, "I see no reason why the entire rural delivery system could not be bid off to private individuals or companies over a period of years. The present framework of postal delivery in rural areas would in no way be jeopardized." From there, he would introduce limited competition to mail delivery elsewhere by privatizing the Postal Service's processing, delivery, and retail functions in all areas of the country.

Crutcher's proposals may have sounded a bit exotic to *Washington Times* readers unfamiliar with privatization. Not to worry, Crutcher assured them; limited privatization is already taking place. "[The Postal Service] already contract[s] out nearly all intercity transportation and even contract[s] with the private sector to provide some limited retail service, so the precedent is well-established," he said.

In fact, however, Crutcher's suggestions don't really go far enough. He would retain the private-express statutes—which give the Postal Service a monopoly on first-class mail—and he thinks a scaled-down Postal Service is necessary to "provide logistical analyses for routing the mail, enforce service standards, and periodically solicit bids." Moreover, Crutcher would be content to

GLOBAL TRENDS

FREEDOM NETWORK

ROME—Free-market centers are burgeoning in Europe, and the latest evidence was the broad participation in a recent conference in Rome. The Washington, D.C.-based Center for International Relations organized the conference to bring together representatives of the mostly new European free-market think tanks and of American groups who have had long experience.

With names like Centro Ricerche Economiche Applicate and Fondation Europeanne pour l'Economie, institutes from all over Europe were represented: West Germany, Italy, Spain, Greece, Belgium, England, France, Austria, Norway, and the Netherlands. Among the participants were several of REASON's foreign correspondents—Henri Lepage, representing the Institut Economique de Paris (Lepage, the author of *Tomorrow, Capitalism*, was interviewed in REASON's October 1982 issue); Joachim Maitre, a vice-president of Axel Springer Publications and a principal dinner speaker at the meetings; and Michael van Notten, of the Institutum Europaeum in Brussels.

The most important discussions revolved around the appropriateness of a thoroughly free-market critique of the welfare state versus a "social-market" perspective (that the welfare state needs a freer economy to generate the wealth for welfare). Insisting on the free-market perspective were Americans such as Steve Pejovich, Jim Bennett, and Leonard Liggio, Englishmen such as John Wood and Michael Ivens, Italians such as Antonio Martino, Frenchmen such as Henri Lepage and Guy Plunier, and Michael van Notten of Belgium. Advocacy of the social market came mainly from organizations closely associated with the Christian Democratic/Christian Social parties in West Germany. They criticized the Hayekian perspective of the free-market proponents as not politically feasible.

This debate pointed up a strong difference between the institutes representing the Anglo-American free-market tradition (ironically strengthened by the market analysis of Austrian School economists Ludwig von Mises and F. A. Hayek) and the Europeans influenced by that tradition, and the German social-market groups with strong ties to political parties. (This contrast was evident earlier at the Mont Pelerin Society meeting held in Berlin in September 1982.)

The contradictions of European politics were evident shortly before the free-market conference, too, when Italy's Young Liberals proclaimed a coalition with the Socialists against the clerical Christian Democrats. The Liberal Party is Italy's voice of the free market, the counterpart of the Democratic Union in France and the Free Democratic Party in Germany.

(Continued on p. 20)

THE BOOK THEY'D LIKE TO SPIKE

"The West and developing countries are filled with citizens who by reason of their positions are able to promote Soviet influence and expansionist goals."—Andrei Sakharov; Nobel laureate.

Sakharov explained that these include *"a great many writers and journalists...and heads of press and television."*

(From a letter smuggled out of the USSR and printed in The New York Times, June 8, 1980.)

TARGET AMERICA, a new book by James Tyson, carefully explores the promotion of Soviet influence in the United States through the insinuation of propaganda in our news media.

It is an important book that should be read by everyone.

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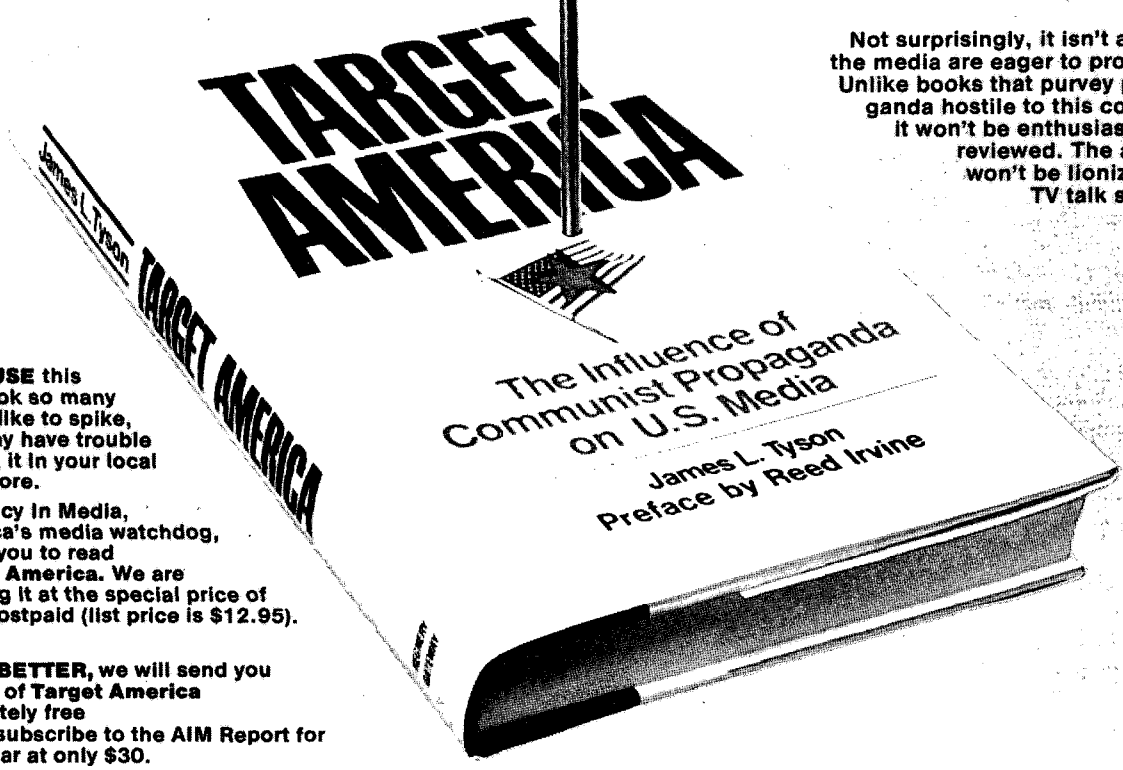

BECAUSE this is a book so many would like to spike, you may have trouble finding it in your local bookstore.

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- What powerful American newspaper launched its own campaign against the neutron bomb only a few weeks before the Soviets began their worldwide campaign against this weapon?
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have rates set as they are now, by a quasi-governmental commission.

It would be wonderful if a Postal Rate Commission member publicly advocated an authentically free market in postal service. But Crutcher's piece in the *Washington Times* is at least a crack in the bureaucracy's facade. In Samuel Johnson's words, it's "like a dog's walking on his hinder legs. It is not done well, but you are surprised to find it done at all."

DO UNTO OTHERS' PROPERTY RIGHTS AS YOU WOULD . . .

If personal liberty means anything, it means that individuals and private institutions should be free to be racist and sexist—or tolerant and open-minded—so long as they don't coerce others or infringe on their rights to life and property. Two recent court decisions pay heed to this principle.

The first was from New York State's highest court, the Court of Appeals. Turning away a charge of unconstitutional discrimination, the court ruled that a private charitable trust in that state may award scholarships only to men. Judge Lawrence H. Cooke argued that these trusts are engaging in completely private acts of discrimination, and this is permissible under state law.

It's unfortunate that one of the challengers of the private trusts was the National Organization for Women. It's also ironic, since any restriction on gender-based scholarships would be a two-edged sword: Cooke himself pointed out that such restriction would "operate with equal force toward trusts whose benefits are bestowed exclusively on women." And if that sword cut a wide enough swath, it's not hard to imagine the effect it could have on frankly discriminatory scholarships awarded by such organizations as the United Negro College Fund, the Aid Association for Lutherans, and the Mexican-American Legal Defense and Educational Fund.

The second decision came only a couple days later. In Los Angeles, Superior Court Judge Bruce R. Geernaert decided that the restaurant Papa Choux could, at least temporarily, continue to exclude couples of the same sex from six curtained booths designed for "a romantic evening." He refused to grant a temporary injunction against Papa Choux, and the case will now go to trial.

Zandra Rolon, one of the two women denied access to the booth, warned, "Today, it is two women who can't sit together. Tomorrow, a heavy-set person could be prohibited from sitting with a thin one." (Perhaps so. And in a truly free-market milieu, the victims of the discrimination would be free to take their business elsewhere and organize a boycott of the discriminatory restaurant.)

An ambivalent Judge Geernaert carefully avoided the property-rights issue when he denied Rolon and her friend, Debbie Johnson, the temporary injunction they sought. He did say that this was a "very, very close case," unprecedented in civil-rights law. But even if there's no telling what the ultimate result will be when the case goes to trial, there was at least a temporary victory for the restaurant owner's property rights.

GLOBAL TRENDS

(Continued from p. 18)

Nothing was more convincing of the contradictions of political fundamentals than the willingness of free-market advocates to link up with Marxists—religious opposition to Christian Democrats placed market economics behind theology.

—LEONARD LIGGIO

CRACK IN THE PRETORIAN GUARD?

SOUTH AFRICA—For South Africa's blacks suffering the oppression of apartheid, a recent court decision has significantly weakened the state's official racist policy. South Africa's highest court ruled in May that black migrant worker Mehlolo Tom Rikhoto is entitled to live as a permanent resident in a black township adjacent to a white urban community. And although South Africa's all-white parliament can enact legislation to nullify the court's ruling, the government has announced it will not do so.

Prior to the ruling, the South African government had finagled matters so that even if black migrant workers had the 10 to 15 consecutive years of work in the country required to qualify for urban residency, they would nevertheless be unable to do so. Another rule required them to return to their nominally independent homelands each year to reapply for work in South Africa. Thus, the authorities could claim that because of the government-imposed leave-taking, the workers' years of service were not consecutive, and the blacks could be denied permanent urban residency. The court ruled, however, that such leave-taking is not an actual interruption of service.

Only one quarter of South Africa's 23 million blacks presently have urban-residency status. The court's recent ruling is reported to affect anywhere from 30,000 to 266,000 more blacks. Only those with status as permanent urban residents are entitled to bring their families to live with them and to acquire long-term property leases. And a recent government decision to partially denationalize, and ease the standards of, low-cost-housing construction may further strengthen blacks' attempts to become South African residents.

MILESTONES

• *Marijuana libertad.* In July, Spain's Socialist government legalized the use of pot and other "soft drugs," making it the first European nation to do so. Punishment for selling the herbal intoxicant was reduced to six months' imprisonment, but penalties for the use and sale of hard drugs like heroin and cocaine remain severe.

• *Arming a constitution.* The California Senate voted in July to write into the state constitution the right to "acquire, own, possess, use, keep and bear arms." Similar measures are included in the constitutions of 39 other states.

• *Simmering tax revolts.* Florida voters will have the chance to vote in November 1984 on a proposition that, says *Tax Action Report,* "rivals California's Proposition 13 in its scope." And Michigan pols admit that a current petition drive to place a tax-slashing measure on the ballot will probably succeed. If so, voters could elect to roll back state income, property, gasoline, and "sin" taxes.

—ROBERT POOLE, JR.,
DAVID M. BROWN,
PAUL GORDON,
AND ERIC MARTI

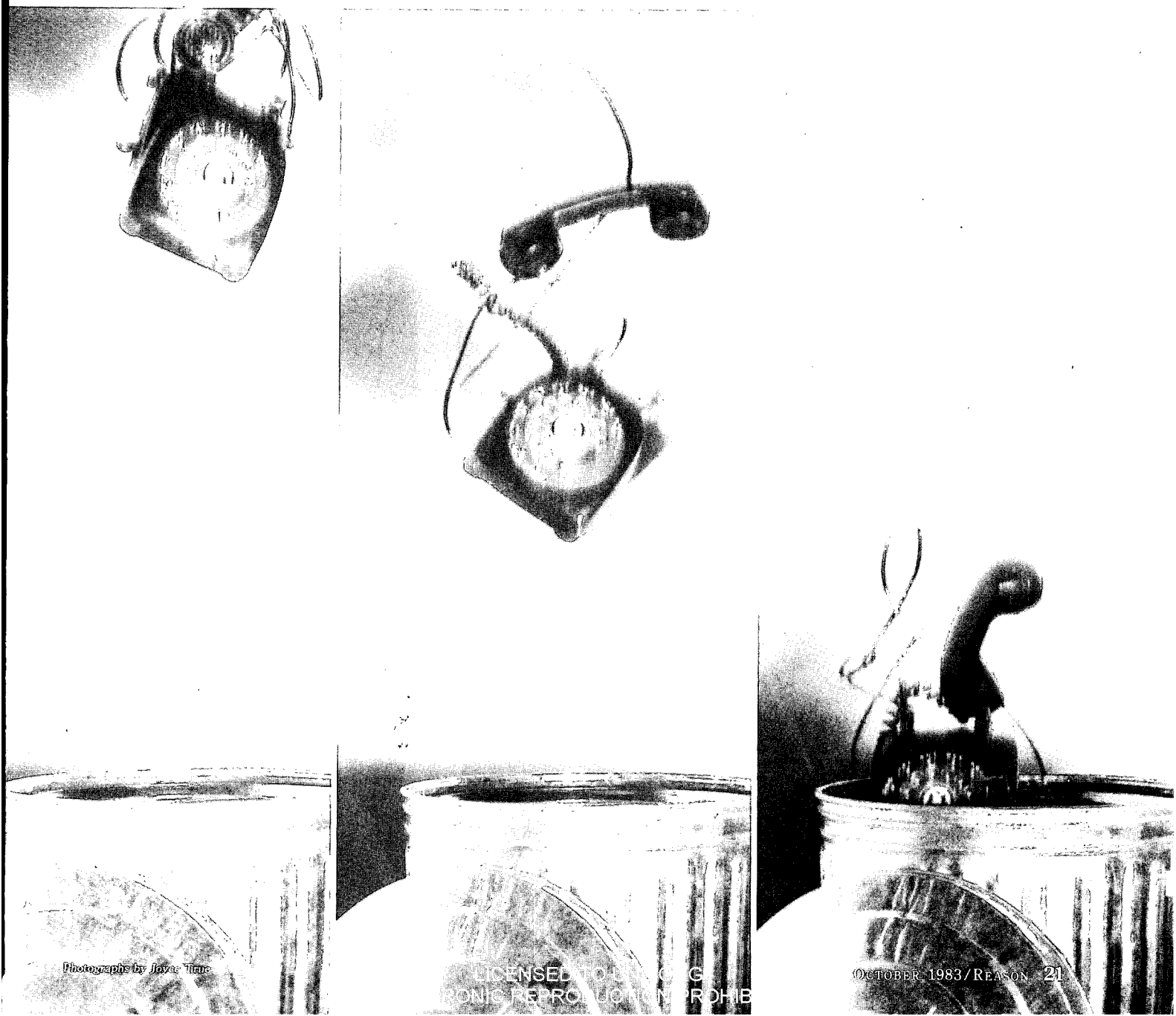
Hanging Up on Your Phone Company

How technology is digging a grave for local phone monopolies

By Peter Samuel

On any given day in the United States, some 800 million conversations pass through more than 1 billion miles of telephone lines. Most of these electric link-ups—over 90 percent of them—are local calls. Of these millions of local calls, three-quarters are handled by the 22 operating companies—with names like New York Telephone, Bell of Pennsylvania, and Pacific Bell—that make up the Bell System, a component of American Telephone & Telegraph, the largest company in the world.

From the beginning of next year, however, the Bell System will be no



Photographs by Jover Trio

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ONIC REPRODUCTION PROHIB

more. Under an agreement hammered out between AT&T and government antitrust regulators, the corporate giant will be split asunder, stripped of more than half of its assets and employees. The 22 local companies that constitute the Bell System will regroup into seven new independent regional companies that will offer only local service. AT&T itself, as a provider of long-distance service, will still be a giant in telephony, but a giant with competitors.

The AT&T breakup has a lot of people worried about what will happen to local phone rates. The issue arises because of the present structure and pricing of phone services.

With few exceptions, local telephone service in the thousands of communities throughout the United States is provided by a single company—most likely a Bell company—that has been granted an exclusive franchise by state regulators to provide service to the particular area. Regulators defend exclusive franchises on the grounds that phone service is a "natural monopoly"—that is, the greater the number of customers over which a phone company's costs are spread, the lower the average cost per customer. So in a city of 100,000, a single phone company can serve all residents at a lower average cost than can two different companies serving only 50,000 each.

Based on this rationale, state regulators, beginning in the early 1900s, took it upon themselves to allow only a single phone company to provide service to a community. And so that the company could not take advantage of its monopoly position to charge high prices, regulators would also control local phone rates.

Then in 1934, Congress passed the Communications Act, setting out "universal telephone service"—telephones everywhere, all interconnected—as the aim of a national telecommunications policy. In pursuit of this goal, federal regulators and AT&T—which by this time had become the country's largest phone company and its only long-distance provider—devised a way to ensure "affordable" local service. Through a system of cross-subsidization, users of long-distance service—primarily businesses—would pay rates in excess of the service's cost, so that ordinary citizens could receive cheap local service.

While the AT&T long-distance monopoly remained intact, cross-subsidization posed no obvious problems and succeeded in supporting universal service. (With about 182 million phones in use in the United States—some 36 percent of all the phones in the world—all but two percent of American households now have phone service.) But as microwave and satellite technology developed in the '70s, competitors began to offer long-distance discount service—at rates 20 to 50 percent lower than AT&T's. The monopoly began to crack.

AT&T's soon-to-be-effected breakup by government regulators allows the pared-down giant to lower its long-distance rates and compete with firms like MCI Telecommunications, General Telephone & Electronics, and Western Union. But the system of subsidizing local service through artificially high long-distance tolls is threatened. And so a swarm of controversy now encircles the issue of your local phone monopoly's rates.

Must your local telephone service remain a monopoly? That's been the conventional wisdom of regulators. Perhaps it presently is the closest thing we have to a "natural monopoly," all those millions of miles of copper cables linking each house on the block to an "exchange" or "central office," where, by dialing, the caller actuates switches that connect him to someone else in the local exchange area or put him through to one network or another out there. All this equipment—the wires, switches, and so forth—is costly to maintain. Without subsidies from high long-distance rates, rates for local service will have to rise. The national average basic rate of $10 per month is projected to double, possibly even triple. And if regulators remain intent on monopoly arrangements, consumers will have no choice but to pay what the local phone company charges or go without the service altogether.

But just as the notion that long-distance service was a natural monopoly evaporated with the advent of new discount services within the last decade, so too this last great "natural monopoly"—local telephone service—is now being challenged. Wondrous advances in solid-state physics have conjured up a profusion of technologies providing new means for circumventing—or "bypassing"—the local phone company.

The engineers are there with the ideas and the equipment, and the entrepreneurs have the money to fund new kinds of local bypass systems. Many are developed. Some are being built now. Some will begin to be advertised before year's end. And they will be in mass use by the end of the 1980s. But the extent to which such systems operate—how diverse the services might be and how low the rates might go—will largely depend on how much freedom entrepreneurs will have to compete among themselves and with the local phone companies.

In New York City, many businesses lease coaxial links from Manhattan Cable TV to transmit high-speed computer data, thus bypassing New York Telephone. Here, technicians check cable signal levels.

The Bypass Business

In the business, all systems designed to circumvent the local telephone company are called "telephone bypass." And nowadays, it is a business just *talking* about ways around the local telephone company. Dr. Jerome Lucas, president of Telestrategies, Inc., a McLean, Virginia, consulting firm, runs several conferences a year just on telephone bypass. Several hundred people pay $250 a day each to attend them. I recently attended two of the conferences to get a close-up perspective of the emerging industry, its personalities and technologies.

The bypass conferences are where the dogs of the business warily gather and sniff one another out. There's a definite canine tension in the air as the different telephone dogs defend their territory, size up competitors, engage in a bit of braggadocio now and then, or just listen intently with ears erect.

Each dog knows he has to do just the right amount of barking, just enough so that pack members or clients are apprised of what he can do if he's on their side, but not so much that he gives away valuable intelligence to competitors.

Everyone's heard of some of the new technologies and seen and become familiar with some. The coaxial cable—that 3/8-inch-thick cable consisting of a core wire surrounded by an outer conducting sheath—is one of the technologies that can be used to bypass the local phone company. It is usually installed to provide that entertainment smorgasbord called "cable TV." But it is not difficult or very expensive to add a telephone signal onto cable. There is, as industry people say, "a mile of bandwidth" available in that coaxial cable. Optic fiber—strands of glass through which impulses of light pass to convey a signal—is another fabulously capacious cable that has the potential to bypass the copper-wire local network.

The other bypass technologies are, to use an excellent old-fashioned word, wireless. They involve the "smart" use of radio signals—that is, the signals' transmission or reception is enhanced by advanced technologies—especially microwaves in several different forms. These technologies include, most prominently at this time, "digital termination systems" and "cellular radio systems."

Though it is convenient to speak separately of each of the emerging technologies, actual bypass systems—many aspects of which are in the research-and-development stage—may tend to include both wireline and wireless components. Phil Freedenberg, director of systems engineering at M/A-COM DCC, a Maryland firm that is developing bypass technologies, has been "living bypass" for several years now. In conjunction with Telestrategies, he has published a telephone-directory-sized report on what has happened so far in bypass and on the technologies for the future. His main conclusion is the not surprising but untidy statement: "No transmission medium will dominate. Each has its advantages and disadvantages. Hybrids will be best."

Brian Thompson, senior vice-president for corporate development at MCI—the company that first challenged AT&T's long-distance monopoly—says much the same. MCI, he says, "wants to have a kit-bag of different tools" and to be free to use the most efficient technology to carry a message. Says Thompson in an obviously well-practiced gag line: "If the milkman will take the message, we'll look at him."

Cable In Coils

Part of the fascinating maze of pipes beneath our big cities are ducts built for great clusters of different-colored "wire pairs" of plastic-covered copper cables. Underneath all those manholes, from which steam blows and through which cables are drawn from giant spools, is an enlarged ants' nest of passageways; and despite modern digging machinery, it is still very expensive to tamper with.

For all the talk of fiber-optic cable revolutionizing the economics of cable-based communications—inexpensive, plentiful, and more-efficient glass fiber replacing expensive copper wire—the hard reality is that it doesn't matter much at all in many applications how cheap the cable gets or how efficient. The reason: cable costs themselves are now trivial compared to the costs of breaking ground, placing ducts, and restoring the surface.

According to a study by Phil Freedenberg of M/A-COM DCC, the cost of building underground ducting in city areas is $20 to $25 per foot. So whether cable can be reduced in cost from $5 a foot to $2 is rather immaterial. The cost of hanging cable from existing poles is, of course, much less than ducting—say, $4 or $5 a foot in an average cable system. In between is the cost of underground cabling in open suburban areas, where ducts are not needed and cable can be buried behind mechanical "plows." Even there, the cost—$10 per foot—is above that of fiber-optic cable itself.

According to Freedenberg, cabling costs per subscriber ranges between $180 at best and $540 at worst. Only a lucrative new business, such as video entertainment, therefore, will justify cabling to households—whatever the cable itself costs—and telephony will have to be an "add-on" use to someone else's cable system.

As far as businesses in established city centers are concerned, the issue is whether the competing new technologies of cable, given the vast expense of new ducting, can get into the existing underground ducts. So far, the local telephone companies have had a virtual monopoly over the telephone ducts. In most places, a state utility law requires phone companies to share the use of the ducts on a "reasonable rental" basis. But if the local phone company owns the ducts, getting the courts or public utility commissions to enforce sharing is often difficult.

Old ducts can carry telephone cabling with, due to new technology, much greater capacity. So the local telephone company should need progressively less duct space to house its cabling. It should be able to rent or sell ducts to its competitors. In New York City's Manhattan area, the ducts are owned by the New York Subway Company—nothing to do with the rail subways—and it leases space to all comers. (Actually New York Subway is a subsidiary of New York Telephone, but Manhattan Cable says NYS works at arm's length from its owner and has dealt fairly with the cable company.) That's made possible the development of the country's major central-city business cable system, operated by Manhattan Cable, a subsidiary of Time, Inc. Chase Manhattan, Manufacturers Hanover, Citibank, Morgan Stanley, and the city government itself all lease multiple circuits from Manhattan Cable and are saving hundreds of thousands of dollars a year by bypassing New York Telephone.

Manhattan Cable's coaxial cable is technologically a better medium for such links, and many businesses like the feeling of security that alternative systems provide. Indeed, when Manhattan Cable first started selling its institutional cable service, most clients saw it as a backup to New York Telephone. "Now," says

Photograph courtesy Manhattan Cable TV

Manhattan Cable president John Gault, "they keep the New York Telephone circuits as backup."

Given that 70 percent of American homes—some 60 million or so—are wired with coaxial cable, with half of these actually subscribing to a cable service, and given that each cable has a great capacity to carry telephone signals, this essentially entertainment medium provides enormous potential for competing local phone service. (In order to convey phone conversations, the cable must be two-way, and most new systems are.)

But to date, a variety of problems have retarded the development of cable telephony. Cable companies are principally entertainment-oriented, and most have not pursued alternative possibilities. Also, cable companies fear being designated "common carriers" if they take telephone traffic, thereby subjecting themselves to rate and service regulation by public utility commissions.

In Omaha, MCI recently made moves to bypass the local phone company by proposing to offer its long-distance telephone subscribers direct connection via their TV cable—and got into a legal battle with the regulators. John Mann, director of corporate development at MCI, said at a Telestrategies conference in June that MCI is nonetheless actively trying to interest equipment manufacturers and cable operators in investing in switching systems and other equipment needed to make telephone service an economical add-on to cable. It even has a name—"cablephone"—for phone service as an add-on to your cable TV.

A firm that's developing both cable and wireless bypass technologies is M/A-COM DCC (it's no more informative spelled out in English), located near Washington, D.C. I'm not sure whether the national capital deserves to be titled the communications capital of the nation, but a lot of actors in the new telecommunications show are in the Washington, D.C., area.

Take I-270 northwest of the city's Beltway into the rolling farmland of Montgomery County, Maryland, and cruise a while. Well before you reach the battlefields of Gettysburg, at Germantown you'll see a neat set of office buildings off to the right in a grassy field, with the title M/A-COM DCC. It is a subsidiary of the big Boston communications equipment manufacturer M/A-COM, and out here in Maryland they specialize in "last mile," or bypass, equipment.

As you circle around off I-270 and proceed down country lanes designed for the occasional traffic of rural life, and as your eyes search between new developments across bits of farmland trying to find the M/A-COM DCC buildings again, you ponder the frustrations of the last mile. But then you identify the buildings again by their cluster of large satellite dish antennas.

Manufactured inside that complex is equipment that carries a satellite signal the "last mile" to the end user. Because huge satellite dishes like those at the M/A-COM complex are extremely expensive, costing tens of thousands of dollars, few businesses or individuals can invest in on-their-own-premises dishes that receive microwave signals directly from a satellite. Last-mile signaling equipment—in the manufacture of which M/A-COM DCC is perhaps the world leader—is the way around having your own satellite dish while benefiting from satellite communications.

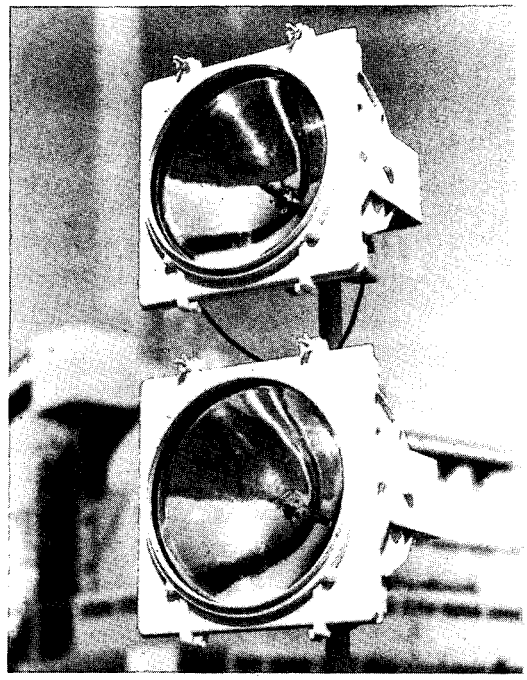
But last-mile technology is much more than that. It is also an alternative local telephone company, for any technology that can receive and send communications on a major trunk, like a satellite, and distribute it to a variety of local users is in the business of bypass.

M/A-COM DCC has two major product lines, each aimed squarely at the bypass of the local phone company. One, called CAPAC, uses coaxial cable as its transmission medium. The other, called RAPAC, uses microwave to bypass the local phone company. RAPAC is specified in some 20 licensed bypass systems now being built in major US cities.

Both RAPAC and CAPAC have been demonstrated in a major experiment that linked the financial districts of New York City and San Francisco. At the New York end, Manhattan Cable provided the "last-mile" links to brokerage houses via coaxial cables. To convert microwave satellite signals to cable signals, and vice versa, M/A-COM DCC provided a CAPAC processor and switch, which hooked into a satellite network via rooftop dishes. In San Francisco, RAPAC and CAPAC were each used for the "last-mile" bypass of the local phone company.

DIGITAL DELIVERY

Among the radio-based bypass technologies, "digital termination systems" (DTS) are developing rapidly. These have been launched with a lot of marketing ballyhoo as "total business communications systems," since they can carry computer data, facsimile images, and video teleconferencing, as well as conventional "voice."



General Electric's Gemlink point-to-point microwave system uses a pair of 10-pound dishes about the size of car headlights. Set in opposition in a line of sight, the units can convey a signal as far as six miles.

Traditionally, telephone signals have been "analog"—or a continuously variable wave—rather than the simple and much faster "on-off" language of "digital" systems. These make use of rapidly traveling streams of electrical pulses, or digital "bits." Telephones will be about the last communications device to "go digital," but the advantages of digital—primarily the high-speed transmission of any sort of data—are such that the move toward telephones compatible with the rest of telecommunications seems almost inevitable.

In a local digital termination system, each subscriber is equipped with a two-foot-diameter transceiver dish—either affixed to the building or installed indoors behind a window—which points toward a central transceiver "node." When subscribers send messages to other subscribers, the central node receives the microwave signals and retransmits them in an arc throughout the system's service area. (Hence this technology is called "point-to-multipoint.")

Because each message is "addressed" to a specific subscriber's station, only that subscriber will receive the message

intended for him. By addressing messages, assigning frequencies, and intermixing—or "multiplexing"—signals, a radio-based DTS efficiently uses scarce frequency and expensive equipment.

DTS microwave is up in the frequency levels used in communications satellites. The general trend in radio technology, especially in America because of congested radio-frequency fields, is the development of new systems using signals of ever-higher frequencies and—the technical corollary—of ever-tinier wavelength. Smaller wavelengths have some drawbacks; they are intensely directional and more easily interrupted by rain. But a great advantage is that many components, especially antennas, can be smaller.

Radio-based digital termination systems will experience their first big year in 1984, but will be used primarily for long-distance communication at first. Bedecking office buildings all around American cities will be two-foot-diameter dish antennas. A whole stack of big-name communications firms and many lesser-known contenders that may make their names in radio-based DTS are presently building systems throughout the nation. The Federal Communications Commission (FCC), which regulates the use of the radio spectrum nationwide, only allocated the necessary microwave frequency to such systems in 1981 and only began to accept license applications last year.

Much simpler than DTS—and with great potential in many places for bypassing the local phone company—are systems based on the older "point-to-point" microwave technology. Now being introduced are some amazingly simple, light, and quite inexpensive point-to-point systems using very-high-signal frequencies. A point-to-point system provides a private channel of communication, via microwave transmission, between two points, each of which transmits and receives signals directly to and from the other point.

A leader in point-to-point is Gemlink, a General Electric system. It uses a pair of 10-pound dish transceivers that look disconcertingly like car headlights and can be bolted onto a water pipe. Good anywhere you can get a line of sight between two points up to six miles apart (depending on rainfall patterns), Gemlink connections cost half the amount of leasing Bell lines and will cost perhaps a tenth or less in capital and installation costs. Old-fashioned, low-frequency microwave was simply uncompetitive in such applications and, anyway, the FCC hadn't allocated the necessary radio spectrum for it.

THE CELLULAR SENSATION

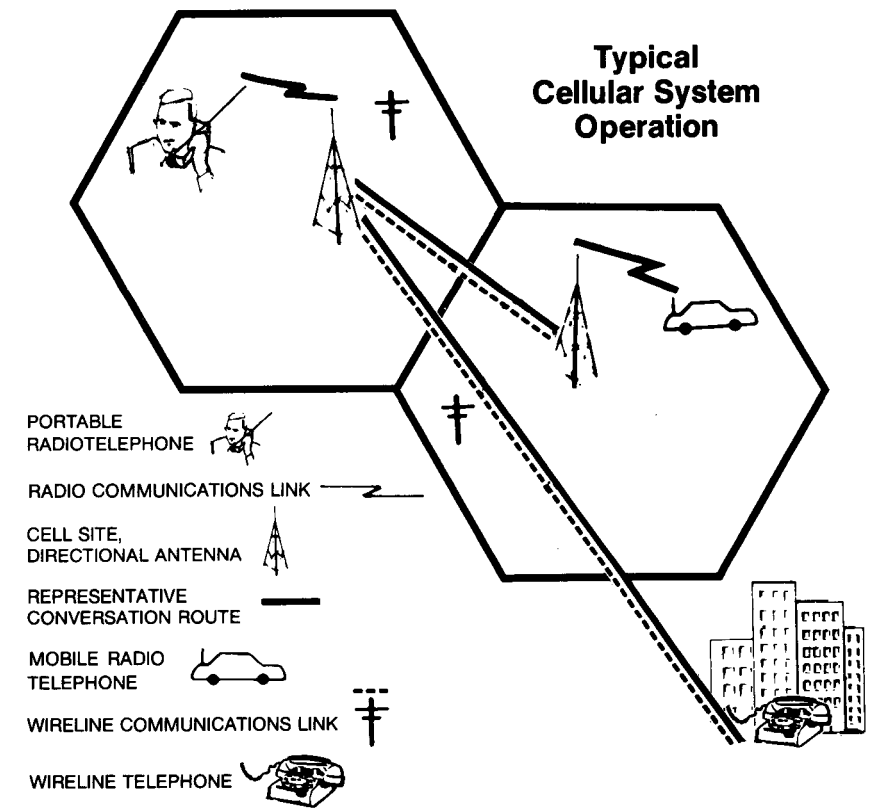
The market for the new technologies has to be proven. The market for personal mobile communications, for example, will most likely be tested stage by stage, as established technologies are stretched and combined. Hence, we now have the "cordless" telephone, a radiophone that allows you to wander around your house, by the pool, or in the garden. But this device depends on a fixed transceiver plugged into a power outlet in the house. The market for cordless phones may be quite quickly throttled off by increasing congestion and interference and the phones' lack of privacy. Cordless phones may overcrowd their available frequencies so quickly, we may see a repeat of the CB (citizens' band) boom and bust of the 1970s—unless some very "smart" new technologies can be brought to the rescue.

To get beyond the range of cordless phones you have to go to higher radio frequencies where there are plenty of channels available. At the higher frequencies not only is there the spectrum needed, but signals become more directional—that is, less dispersed or broadcast around—as well. This enables similar frequencies to be used in many different places, for different signals and conversations.

This quite-localized range of higher-frequency radio is utilized in the new "cellular" radio mobile-telephone systems. The service area of a cellular system is divided—and can be constantly subdivided—into hexagonal cells, each cell being served by a "nodal" transceiver with a range of 1-12 miles, depending on the size of the cell. Each nodal transceiver uses the full menu of frequencies—666 in all—to carry separate conversations.

The key to mobility lies in a sophisticated, computerized "hand-off" system in which the base "node" keeps a constant check on the signal strength of each talking mobile phone in its cell. When that mobile unit moves too far away for the cell's base node to maintain a high-quality signal, the node hands the conversation off, automatically and unknown to the talker, to the base node station of an adjacent cell. Hence the caller can move from cell to cell, his conversation uninterrupted.

Transceiver nodes in the system are all interconnected via phone lines, with devices to convert radio signals to phone signals and vice versa. In this way,



mobile radiophones and standard stationary telephones can communicate through the cellular system. (In the future, systems with other means of interconnection—microwave, perhaps, or coaxial cable—may be developed. But for the present, phone-line interconnection is the norm.) Thus, cellular phones will not be a boom-and-bust fad like CB radio, a system through which CB operators can talk only with other CB operators.

The United States has been slow to get into cellular, though AT&T developed the technology in the late '60s and applied to the FCC in 1969 for a license to build cellular systems. The FCC dragged its feet for 15 years, however, with studies, hearings, and other excuses for inaction. It wasn't until June 1982 that the commission finally started to accept applications for cellular systems. Though it has not yet granted a single operating license, the FCC has given about 25 permits to companies to start building systems in various cities, including Chicago and New York.

The FCC is allowing two competing cellular operators in each market (one of which will be the local telephone company). Each operator will get half of the total 666 frequencies allocated for cellular use and will vie for customers (though the equipment will allow subscribers of one system to communicate with the other system's subscribers). Because of the diversity of the technology, cellular represents one of the major opportunities for bypassing the local phone company.

There are two fairly distinct kinds of cellular phone. One's really a car phone. The other is a hand-held, self-contained portable unit, able to fit in a purse or briefcase. We've had car phones for years—at least posh guys have. The cellular ones won't look much different from the old ones, but they give far-superior signal quality—less whistle, crackle, and pop.

Most important, cellular mobile phones won't have to be for a tiny elite. The old car phones operated on congested lower frequencies, and their transmissions were omnidirectional and relatively high-powered, so the 25 frequencies allotted to the old car phones could not be reused for many miles around. With only a couple of dozen simultaneous conversations possible within a 10- to 20-mile radius, car phones were inherently an elitist technology.

By contrast, cellular's 666 channels can be reused almost infinitely as cells are subdivided into smaller cells and as signal power is brought down. Whereas there have been only 160,000 car phones nationwide, with high-frequency cellular there could be tens of millions of mobile and portable phones on the system. Industry estimates put the number of initial cellular users at 1.5 million, with that figure doubling by the end of this decade. Such is the confidence in the future of cellular that when the FCC in June 1982 started to accept license applications for the top 30 markets, more than 200 were received.

Most industry observers think most cellular action, to start with, will be in car phones. It is much less demanding to manufacture a phone that works in a car than to make one you can carry around. In a car, a unit can draw on the car's power supply and can use the roof as an antenna. In a truly portable phone, the phone has to have its own power and antenna. It is being done, however, and an American company is the leader.

Photograph courtesy Motorola, Inc.

Photograph courtesy Oki Advanced Communications

Within just a few years, millions of cellular-radio subscribers will be placing calls with portable telephones like Motorola's Dyna TAC hand-held unit (above) and Oki Advanced Communications' Direct Line car phone (left).

Motorola, Inc., of Chicago, is planning to mass-produce the world's first truly portable phone, called, rather clumsily, Dyna TAC. Weighing 1.8 pounds, it measures 8 by 3 by 2 inches. Jim Caile, head of cellular marketing at Motorola, claims the device will fit in his pocket—a pretty large pocket, perhaps, but it is clearly a fairly portable phone. It is good for 12 three-minute phone calls on a battery charge. Caile says Motorola hasn't set a price for Dyna TAC units yet, but

they may retail somewhere between $2,400 and $4,000.

A small New York-based company, Millicom, has a similar-sized portable telephone, which Chief Financial Officer Brian McAuley told me should sell for $1,000 and rent for $28 a month. Most in the industry consider these prices "a little way off"—on the low side, of course—but quite possible with quantity sales. If such a price can be achieved, the future of cellular portable phones looks brilliant.

Where will they work? Nearly everywhere—in the home, in the street, in cars, but not so well in the interiors of office buildings. Probably not at all in elevators or subways, certainly not in planes. (Although, in planes, there will soon be a satellite-based radio system, courtesy of Western Union, through which airplane passengers will be able to communicate with earthbound humans.) So cellular won't be quite the ubiquitous means of communication conjured up in *Star Trek*-like scenes, but it will be a massive advance on the wireline fixed phone we now know.

There have been small-scale experimental cellular systems operating in the United States for a couple of years, including AT&T's pioneer system in Chicago, as well as two others (in the Washington-Baltimore and Raleigh-Durham areas). Full-scale systems have been operating—some since 1974—in the Scandinavian countries, the larger cities of Japan, Saudi Arabia, Singapore, and Australia.

William Newport, president of AT&T's Advanced Mobile Phone Service (AMPS), says he hopes to have a full-scale cellular system in Chicago by November this year. AMPS is working to have cellular available in California before the June 1984 Olympic Games. By 1984 and 1985, AMPS and other cellular developers hope to mass-market systems to most American cities. Cellular will be generally available throughout America by about 1987 or 1988.

How ubiquitous is the mobile phone going to become? No one can say. So much depends on its cost and how well it works in the hands of ordinary, nontechnical people. Herschel Shosteck, of HS Associates in Silver Spring, Maryland, has surveyed various people's interest in cellular phones at different prices. Shostek finds price the key. For example, less than 10 percent of businesses, Shosteck has found, are interested in cellular at total costs of $100 a month or more per phone. At $50 a month, a quarter of businesses are interested. At $75 a month, Shosteck could find no measurable demand from householders, but substantial demand developed at $50.

No one knows how quickly cellular prices will go down. But we do know the baseline service prices operators will initially charge, from their startup filings with the FCC. AMPS in Chicago, for instance, is asking a monthly access charge of between $40 and $50, the precise amount depending on numbers of units in use. Its calls will be a basic 39.3 cents per minute in peak hours and 23.5 cents off-peak. On top of that, you have the mobile phone itself to purchase, and for the moment that's the most expensive part of the system. A $3,000 unit financed at 14 percent per year is about $100 a month. It's clear that for now the AMPS system is for the limo set! That's certainly the way the big-government monopolies overseas have sold cellular. In my native Australia, for example, the system was launched at a monthly charge equal to $170, with calls extra. As a result, in three years of operation, the system's got a mere 6,000 subscribers.

That kind of high-priced system, it seems clear, won't become an item of mass use. After all, cellular is competing with standard phones that have a basic monthly cost of $10—which, due to the AT&T breakup, may double or triple over the next several years—with pagers that cost $100 to buy and $5 per month to operate, and with pay phones that cost mere coins. Yet, if Millicom can really market a good portable phone for $1,000, you're up for less than $30 a month, and that's a completely different ballgame.

POLITICAL BYPASS

Just as affordability of the various bypass technologies will in large part determine their growth and success, so too will the regulatory environment in which they exist. In fact, taking a leaf from the recent history of long-distance phone service, it is likely that the political obstacles will be the most formidable. MCI's success in cracking AT&T's long-distance monopoly in the '70s, opening up the field to a host of later competitors, was largely a matter of pursuing deregulation through Washington's political, bureaucratic, and legal snakes and ladders.

A former railroad-union official from a coal-mining area of Pennsylvania—but also a graduate of the Harvard Business School—MCI's chief executive officer, William McGowan, should be one of the great heroes of contemporary free enterprisers. A visionary 54-year-old bachelor, McGowan is a determined and hard-working entrepreneur. He saw an economic opportunity in the accumulated fat of AT&T's phone system and said that there must be a political way to break into its monopoly. MCI originally stood for Microwave Communications, Inc., though it might better have been styled LTF—Lobbyists for Telecommunications Freedom. For the first half of its life, the Washington-based firm employed more lawyers and lobbyists than engineers.

In the early 1970s, MCI had first tried operating private telephone links via microwave for big telephone users, but ordinary dial-up phone service was where the real action was—AT&T's business. McGowan knew the technologies were there to compete with AT&T and develop a good business, even with a relatively modest share of the telephone market, for people would leap at lower-priced service. The great obstacle he had to overcome was government protection of AT&T's monopoly.

McGowan recalls the hours he spent in the FCC reading room and how he discovered that, while local telephone franchises were monopolies, there was nothing specific in any statute or regulation that spelled out an AT&T monopoly in long-distance service.

"Everybody thought there was a legal monopoly, even the FCC," says McGowan. "But no one could give me chapter and verse, so I went and tested it in the courts." Some test! AT&T fought him every inch of the way. And most of the time, the FCC was against him, too. But after almost 10 years of litigation and lobbying, in 1977 a federal appeals court ruled in favor of MCI, saying there was no legal basis for the FCC-AT&T obstruction of MCI's "Execunet" dial-up long-distance service.

MCI had started up Execunet back in 1975. By cleverly exploiting the bureaucrats' rules, the company had hustled the FCC into giving it a permit. Almost as soon as the regulators realized what they'd done, they tried to backtrack. But MCI was off and running. The FCC was trying to slam the stable door after the proverbial horse had bolted. It was a brilliant race through the Washington maze.

Following MCI's lead in the mad dash in long-distance competition have been a number of contenders, including General Telephone & Electronics, International Telephone & Telegraph, Satellite Business Systems, and Western Union. And as the competition has heated up, long-

distance rates have cooled down.

In the case of local phone competition, then, much is going to depend on the regulatory environment of this traditionally overregulated area. For example, the question often is raised now whether restrictions preventing local telephone companies from offering coaxial cable services will be justifiable if cable companies get into telephony. One observer, Eli Noam, writing in the *Federal Communications Law Journal*, suggests that in places where an established cable company is allowed to use part of its capacity for phone service, authorities should then permit local phone companies to go into cable: "By pitting large carrier systems against each other, one encourages a dynamic development of technology and applications, and at the same time reduces the need for regulation."

Unfortunately, however, telephone companies and cable operators alike have developed a monopoly mentality. Recently, for example, in New York, some of the cable franchisees selected to provide service in uncabled boroughs threatened to pull out of New York, because Merrill Lynch and other developers were planning to install cable through the franchisees' areas to link a proposed Staten Island "teleport"—a collection of satellite earth stations—with the developers' customers. The cable-TV operators seemed to think they were getting some monopoly right to laying cable in these boroughs and that the city would protect them from any competition. After much discussion and negotiation, the issue, at this writing, has not yet been fully settled.

For their part, cities have shown too little interest in competition, probably on the instinctive understanding that where there's competition, there's less monopoly profit for the government to skim off and less of a case for regulation. As an illustration of this governmental bent, all around the country there are little skirmishes between city regulators and apartment owners over satellite master antenna television (SMATV), or minicable networks.

In an SMATV system, a large dish antenna receives a television signal directly from a satellite, then conveys the signal to end users' TV sets via a cable. Such systems mostly serve large apartment or condominium complexes. It makes economic sense for an apartment owner or condo association, if it has a master antenna, to sell its signal to residents in other nearby apartment blocks, as well. It appears one can legally do this if public property is avoided. But if the cable has to go over or under even the tiniest public alleyway, regulators and cable-TV franchisees, with their monopoly mentality, will charge breach of franchise regulations. Those who step on the local phone company's turf, then, will most likely encounter the same monopoly mentality.

A bill that passed the US Senate in June, concerning local cable-TV regulation, may indicate what's in store for local phone regulation. The bill asserts new federal powers over cable TV. It is too early to say whether this development is an improvement, though there may be some grounds for optimism.

The Senate bill is a mixed bag. If Congress passed the bill in its present state, it would go far in deregulating cable rates and would limit the fees and services a local government could require of a cable operator in return for a franchise. (As documented in REASON in a July 1982 article by Tom Hazlett, City Hall has done a pretty awful job with cable, entrenching monopoly and extracting for itself all kinds of goodies from cable companies as the price of a franchise.) The Senate bill, too, would allow cable to offer a wide array of telecommunications services—such as computer-data transmission—in an unregulated environment.

On the other hand, the bill would give local authorities the power to restrict or regulate the provision of basic phone service—that is, two-way voice communication—via cable. And that does not bode well for competition between coaxial cable and the local phone company, at least in voice transmission.

Bill McGowan, chairman of MCI Telecommunications, led the legal and political battle throughout the '70s that ended AT&T's monopoly of long-distance phone service.

Moreover, the prospect of sharply rising local phone charges following the AT&T breakup creates a constituency for politicians and other regulation-minded persons to obstruct the workings of the marketplace through new controls. And indeed, in July Sen. Robert Packwood (R-Ore.) introduced a bill into Congress to "help maintain the country's nationwide telephone service at reasonable rates" (shades of 1934). Packwood's bill calls for surcharges on long-distance carriers and on "any companies that bypass the local telephone company," the revenues from which will go into a "universal service fund." This fund would then subsidize local phone service for residential customers. Not an especially encouraging sign for bypass and the benefits for

consumers of vigorous competition.

It is said again and again that telephone competition favors the rich, because the average individual can't afford the investment of switching over to a bypass system. At first, that will be true. It is going to be business and the rich who will be the first big users of the new telecommunications, partly because they are big users of communications. (Something like 4 percent of the Bell System's users now account for more than 60 percent of its revenues.)

It was the rich who first got electricity in their homes, first got washing machines, and first bought automobiles. All these gadgets and technologies took time and development to become generally affordable items.

A large part of the reason America has benefited by new and productive technology has been the extent of competition—how it constantly forces providers and manufacturers to change, economize, and improve. And the lower business costs that competition forces mean lower prices for consumers. Communications is particularly in need of competition and entrepreneurship, having been especially ill-served by the dead hand of bureaucracy and government regulations.

Under the AT&T-FCC telephone trust, Americans have paid a high price for universal service as it was engineered by the government-enforced monopoly. High rates, for example, have discouraged long-distance use. Indeed, distance has been more of a communications cost than it should have. Economic activity, communications, and transport decisions have been distorted as a result.

There are enormous benefits and changes to be wrought by lower, more-realistic telephone charges and new services. Consider the impact of just one innovation, the "800" toll-free system, which is already a major factor in the deurbanization of America. "Mail order"—or "800-order" business, it should be called—is growing at twice the rate of retail sales generally, in large part because of lower rates in the context of a modern nationwide telephone system. Factories in "the boondocks" can now advertise nationally and take orders by 800-number phone calls.

"Telecommuting" is another phenomenon that modern telephony can make possible. With portable terminals hooked via telephone to remote computers and data bases, people can draw information from their offices down the phone line and feed their work back down it again, with the flick of a little switch—one marked "ANS/ORIG" (answer/originate) in the case of the Radio Shack 100 on which I am typing this article.

Calling Up The Past

It has been in periods of untidy, tumultuous competition that products have been democratized and gone through their most rapid rate of growth and innovation. The history of the telephone itself is instructive.

For most of its history, phone service has existed in a near-monopoly situation under strong government regulation. From 1876 to 1894, Alexander Graham Bell's company held the patent for the telephone and thus had a monopoly on phone service. By the end of the period of Bell's patent monopoly, there was barely one telephone to each 250 US residents. Yet it was such an inherently powerful piece of technology that its rate of growth was quite good—16 percent per year.

But the telephone business really took off in 1894, when the Bell patent expired and independents were allowed to compete with Bell. For 13 years of open competition, 1894 to 1907, the number of telephones grew annually by *27 percent.* By the end of that period, there was a telephone for every 14 Americans.

In their 1978 book, *The Evolution of the American Economy*, historians Sidney Ratner, James Soltow, and Richard Sylla describe the flowering of telephone competition:

The effects of competition in telephony were striking. Between 1893 and 1907, when the independent [telephone] movement reached its peak in relative terms, the number of phones in the US increased from 266,000 to 6.1 million. Of these, 3.0 million were independent and 3.1 million were Bell phones; Bell's market share had fallen from 100 percent to 51 percent. Although its market share had been cut in half, Bell did react vigorously to the new competition by cutting its charges to its subscribers and by adding more than ten times as many phones during 1893-1907 as it had put into service in the era of its monopoly from 1876 to 1893.

But AT&T (the Bell company formally became American Telephone & Telegraph in 1900) did not like competition. It had been making profits of 40 percent on investment during its patent monopoly period; after 1900, hectic competition from the independents reduced its rate of return to around 8 percent. The corporation saw an easier and more profitable life through a restoration of monopoly. Government regulation was the key.

By 1907, AT&T began a massive buy-up of independent telephone companies and initiated a propaganda drive against the supposed wastefulness of competition. That bore fruit in 1910, when a law put telephony under the regulatory control of the Interstate Commerce Commission—transferred to FCC jurisdiction in 1934—and competition was effectively ended. From 1908 to 1913, the growth of telephones dropped from 27 percent annually to 8 percent. From 1914 onward, under the ICC, and from 1934, under FCC control, annual growth dropped to between 4 and 5 percent.

During America's competitive telephone period, between 1894 and 1907, there developed quite a bit of service duplication. That is, people had lines and telephones from a second telephone company. On a small scale, that is starting to happen again. In some downtown areas, for example, some long-distance companies lease lines from their own exchange or central office to the subscriber. If he's a small business with "key" style telephones—each phone having buttons for each outside line—one or two keys may pick up, say, GTE's Sprint long-distance lines, and the others will be linked to the regular local telephone company. A slightly larger company with a PBX (private branch exchange) might have a least-cost routing system built into its switch. This routes long-distance calls to the cheaper carrier's lines and local ones automatically to the local company.

There's no reason this couldn't happen in people's homes, too, especially as "telecommuting," or working from home via computer, increases and people hook more devices into phone lines. Those independent lines coming into the business or home are a long-overdue revival of competition that saw the democratization of telephony in America.

Early on, "bypass" of the telephone monopoly undermined its monopoly powers, and it can do so again. During the competitive years of American telephony, AT&T's revenues per phone were halved by competition—down from $76.41 in 1894 to $35.71 in 1909. Which suggests that those who now assert so dogmatically that competition must raise costs to the householder are just way out. There is a new era on line—if we will just *laisser faire.* ◧

Peter Samuel is a Washington-based feature writer for the Murdoch newspaper chain and a frequent REASON contributor. This article is a project of the Reason Foundation Investigative Journalism Fund.

THE WIZARDS OF ZILCH

In the late afternoon of March 18, 1968, a momentous discovery was made. The place was a crowded conference room on the sixth floor of the State Department Building. The occasion was yet another dull and boring weekly staff meeting under the direction of the assistant secretary of state for inter-American affairs.

As usual, each person at the conference table took his or her turn reporting (in bureaucratese) on some problem or development (real or imagined) from the preceding week. And every now and then someone coughed, **interdigitated**, nodded in approval, made a comment, raised a question, tsked-tsked, or otherwise engaged in some

BY WILLIAM H. PETERSON

Illustration by Sandra Higashi

standard meeting ritual or by-play.

As the meeting droned on, James Boren, in his fifth year as a State Department meeting regular, yielded to a gnawing suspicion. Sitting up straight, he carefully surveyed the room. Full-frowns, half-frowns, and other signs of facial fatigue abounded. Eyes, for the most part, were glazed over and some were even closed. Doodles were evident on many of the legal-sized notepads distributed beforehand for the meeting. In fact, nobody seemed to be really listening. And, now that Dr. Boren thought about it, none of the speakers was actually saying anything. Indeed, they were mumbling.

So just as with Archimedes in his bathtub and Newton under an apple tree, a great truth slowly but surely dawned on this observer of the bureaucratic art: these bureaucrats were engaging in dynamic *in*action and doing it in style.

Dr. Boren's brow furrowed as he thought hard about the situation. These bureaucrats—and probably bureaucrats everywhere—had learned that innovation and creativity are acceptable as long as they fall within established guidelines, that procedures always take precedence over substance, that red tape can and should be cut as long as it is cut lengthwise, that the wise bureaucrat **residuates** by wearing clothing that matches the

paint or wallpaper in his office, and that nothing is impossible until it is sent to a committee.

Dr. Boren reflected further. What were his colleagues really up to? He concluded they were bent on devitalizing ideas with deft thrusts of **yesbuttisms** and forthright **twiddlisms.**

"Eureka," exclaimed Dr. Boren, half-aloud, his eyes ablaze. "I found it! Dynamic inaction! Fantastic! Bureaucratic survival's a matter of **fuzzifying** and **zilchifying.** Heads snapped Dr. Boren's way, attendees stared at him, and a hush descended on the room.

"Ahem," said the assistant secretary, sensing something was wrong. He checked his watch, found it was after 5:00, and hurriedly adjourned the meeting.

The rest is history. Within three weeks, Jim Boren decided to dedicate his life to good deeds and tell the world of his newly discovered principles. He founded what is now the International Association of Professional Bureaucrats (INTERNATAPROBU) and soon afterwards laid down, Moses-like, three laws on bureaucracy (which have since taken their place in the annals alongside **Parkinson's Laws** and the **Peter Principle**):

(1) When in charge, ponder.
(2) When in trouble, delegate.
(3) When in doubt, mumble.

It's on the latter law that Dr. Boren mainly expounds in his latest learned work, *Fuzzify!* (McLean, Va.: EPM Publications, 195 pages, $9.95). Mumbling, he explains, has two basic approaches—linear and vertical. He writes:

"Linear mumbling is the transposition of tonal patterns, and it is not distinguishable in the form of words, though a few may be used as linear connectors. When one hears a linear mumbler practicing the art, the initial response is to lean forward as if to catch some meaning that may be embodied in the tonal pattern.

"Of course, the significance of linear mumbling lies not in its meaning but in its expression. Flexible tones, octave changes, exhaliatory projections and orchestrated fade-out can be linked by an occasional word or phrase. The listener then attempts to fill the gaps between the intelligible words that may surface from time to time."

Linear mumbling is often heard during cocktail parties and formal receptions. The tinkling of ice cubes in tall glasses, the little babbling brooks of conversations, and the sizzling of chicken wings and meatballs create the perfect atmosphere of linearity. Some people try but can't hear, others can hear but don't want to, and a number can't understand what they hear anyway. People nod, shake hands, linearize a mumble, and move on to the next nod, shake, and mumble. Politicians who think they recognize a contributor but can't remember the name, and corporate managers who think they have spotted a major stockholder but are not sure, can turn to their spouse and linearize an introduction. "Honey, you remember thumbbolfle, don't you?" Another nod, another shake, another linear mumble.

What about vertical mumbling? Says this **inertiated** lawgiver:

"Vertical mumbling is characterized by the multisyllabic stringing of words that profundify simplicity and fuzzify intent. The word strings may consist of short bursts of articulate **multisyllabattics**, or they may be composed of an extended flow of multisyllabic words. Vertical mumbling may be used to avoid confrontation, but it is usually used to indicate organizational wisdom and great expertise in whatever is being discussed. As an avoidance language, a comprehensive vertical mumble may project a slight concurrence before the mumble ends."

As an example par excellence of vertical mumbling and confrontational avoidance, Dr. Boren presents his esteemed Order of the Bird to that Office of Management and Budget underling who came up with "revenue enhancement" as a neat fuzzifier for "tax increase." Beautiful. The good doctor also awards the Order of the Bird to a certain former secretary of state whose official mumblings, linear and vertical, have inspired old-line bureaucrats everywhere. In fact, the ex-secretary has, in effect, given birth to a new star in the mumbling lexicon—**haigification**.

Fuzzify! is a **profundicated** volume, a boon to mankind. For while James H. Boren admits that bureaucrats rarely have sex with one another (what they do, they do to the public), the fact is that fuzzification of communications frequently results in welcome delay. The delayers of the world are the heroes of bureaucracy and civilization, says this brilliant social scientist, for they are the ones who keep things from happening and thereby prevent mistakes from being made.

In fact, professional bureaucrats in the corporate and governmental labyrinths would do well to orbitate semantical proclusions and mushify administrative directives to preclude undisambiguated oopsifications, thrashified judicialities, and variegated idiotoxic programs.

Dr. Peterson is the director of the Center for Economic Education and the Scott L. Probasco Jr. Professor of Free Enterprise at the University of Tennessee at Chattanooga.

AN OBFUSCATORY GLOSSARY

fuzzify, v. *To present information in a manner that seems clear and precise but which is characterized by optimal adjustivity of interpretation.*

haigification, n. *Involuted formulation or explanation of foreign or other policies in superficially meaningful but really incomprehensible terms.*

inertiation, n. *Implementation of a policy or program in such a way as to assure slow initiative and low-level performance on a sustained basis.*

interdigitate, v. *To interface in a rhythmic pattern the digital elements of the hands in a professional manner. No professional bureaucrat ever interdigitates with a spacial gap greater than one inch.*

multisyllabattic, a. *Refers to forceful interfacing of multisyllabic words with the batting of constituent syllables within a single word.*

Parkinson's Laws, n. *(1) Work expands to fill the time available; (2) Expenses rise to meet income.*

Peter Principle, n. *In a hierarchy everyone rises to his level of incompetence.*

profundicate/profundify, v. *To denote use of thesauric and other wordational techniques to make simple ideas seem more profound. Graduates of agricultural institutions tend to use* profundicate, *while graduates of Ivy League institutions tend to use* profundify.

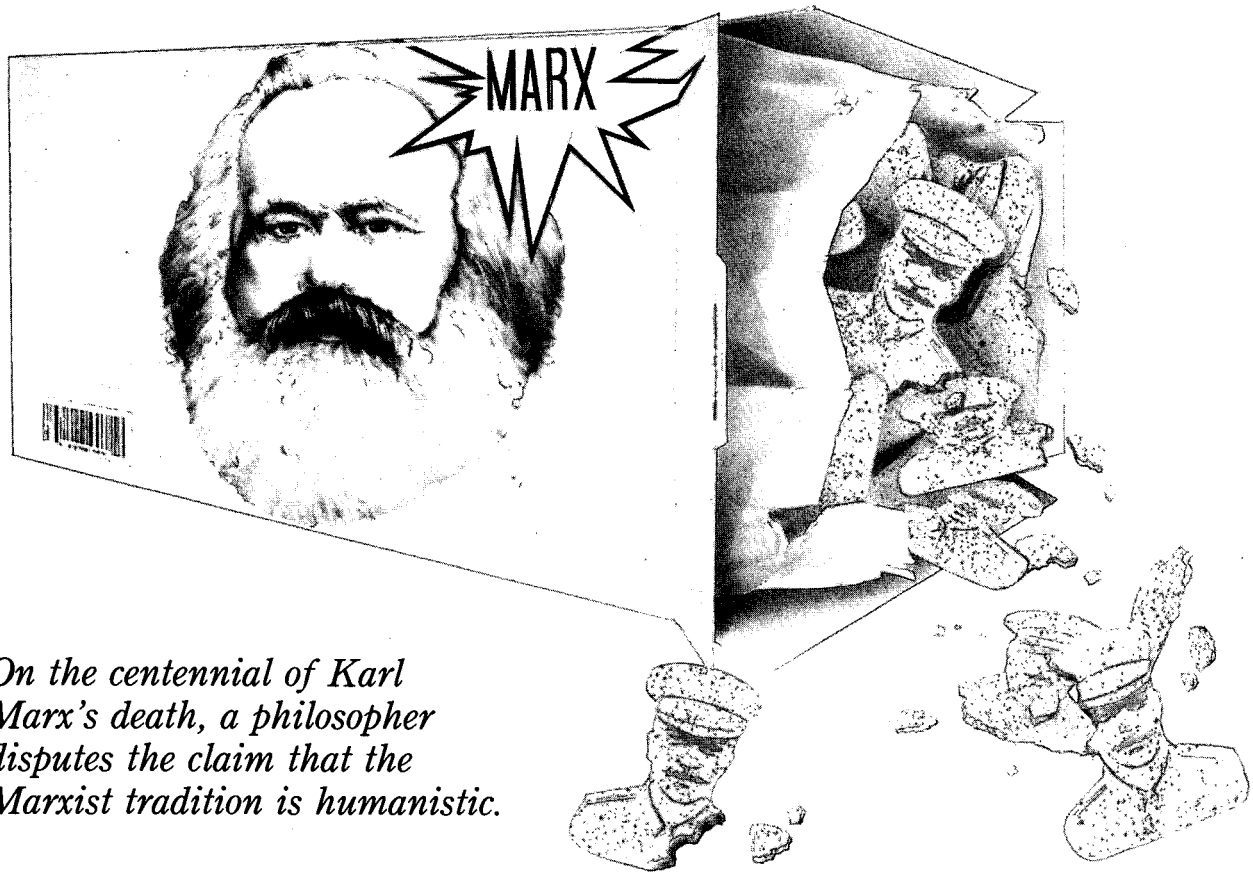
residuate, v. *To burrow into a fixed, immovable position while maintaining a very low profile. Needed during changes of administration or management.*

twiddlisms, n. *Short-radius referrals of memorandum, document, report or other written material so as to orbitate time required for execution.*

yesbuttism, n. *Agreement with policy enunciation but negated with a drawn-out "yes" and punctuated with a curt "but."*

zilchify, v. *To convert or reduce policy, directive, memo, etc., from a level of value to a level of absolute nothingness.*

YOU CAN'T HAVE MARX WITHOUT STALIN



On the centennial of Karl Marx's death, a philosopher disputes the claim that the Marxist tradition is humanistic.

By Tibor R. Machan

WHY IS MARXISM so widespread and popular? Why does a system of thought in whose name an estimated 250 million people have been murdered in the Soviet Union alone keep many, many intellectuals and political activists spellbound?

Each year, university publishers and commercial presses produce hundreds of books devoted to making yet another version of Marxism palatable and understandable. Almost all proclaim to have found yet another important truth in Marxism—an improved version of what used to be thought the truth of the matter by some other loyal Marxist. Each year thousands of university-educated men and women go into the political arena defending some version of Marxist socialism or communism, all the while scorning the likes of Stalin and sometimes even Lenin.

How is this possible? Why can't these perfectly capable human beings see that the doctrine of Marxism is completely permeated with dictatorial, totalitarian prospects?

In fact, there is no mystery here. Marxism, contrary to widespread conviction, is not a grave departure from other prominent viewpoints in Western culture. For example, Marxism is altruistic through and through. From his first published writings to the last, Marx showed that he believed first and foremost in the moral imperative of individual self-sacrifice in support of humanity.

In what David McLellan calls Marx's "school-leaving examination of 1835," when he was only 17, Marx wrote:

When we have chosen the vocation in which we can contribute most to humanity, burdens cannot bend us because they are

sacrifices for all. Then we experience no meager, limited, egoistic joy, but our happiness belongs to millions, our deeds live on quietly but eternally effective, and glowing tears of noble men will fall on our ashes.

The entire essay is filled with the spirit of this conclusion. Marx insisted that "man's nature makes it possible for him to reach his fulfillment only by working for the perfection and welfare of his society." And he believed that "if a person works only for himself he can perhaps be a famous scholar, a great wise man, a distinguished poet, but never a complete, genuine, great man."

In our modern age, the supernatural or theological justification of these ideas has fallen on hard times. But these ideas can be—and are—sustained within a secular framework. And when the altruistic ideals are shorn of their mystical underpinnings, they begin to look like real, attainable prospects. Heaven on earth appears possible if we but marshal all our efforts carefully and rationally enough. Reaching the perfection (or full maturity, or emancipation) of humanity then becomes simply an engineering problem.

So in essence Marxism perpetuates a secular version of the Christian idea, as Prof. Harry V. Jaffa pointed out in a recent centennial comment on Marx. "Communism draws upon the same capacity for a 'willing suspension of disbelief' that marks the faith of Christians," noted Jaffa. "The power of communism is its messianic promises.... The Church of Marx declares that these promises will be fulfilled because Science is Truth, and Marxism is Science."

ONE OF THE REASONS, THEN, that Marxism is so widespread and popular is that it satisfies the visions of both mystics and materialists with its promise of heaven on earth. Its pretensions to being a science managed, initially, to hoodwink intellectuals who otherwise would have grouped Marx with William Godwin, Charles Fourier, Robert Owen, and Henri de Saint-Simon—all denounced by Marx himself as utopian dreamers. Marx escaped this fate because of his ingenious, if confused, coupling of the collectivist vision of socialism with the aura of modern science. It is that false patina of science that made the real difference.

When Marx appeared on the scene, religion had already popularized the view that improvements in human and social life must ultimately come from outside, from something other than individuals. True, the objective of many religions is personal salvation. But the means to this end are said to be in God, in Jehovah, in Jesus. And although Marx brought this otherworldly force into the natural realm, he still clung to an impersonal redeeming force—the laws of history. By being brought into nature, the utopian ideal seemed far more realistic than it had within the religious context.

In short, by combining "science"—the impersonal but natural forces of history—and the promise of collective human emancipation, Marxism built on past visions while urging more modern methods. This explains much of the doctrine's appeal.

As a matter of plain fact, however, human beings cannot reform, improve, become emancipated, achieve self-perfection, or reach any other fine goals unless they individually take up the task of doing so. So the entire Marxian project is an impossible dream. And impossible dreams cannot be pursued except in fruitless and punishing ways. This is plain enough. Certainly no socialist or communist scheme has ever delivered what it promised—not one.

The impossibility of the Marxist scheme was obvious early enough. Lenin realized right away that the proletariat, which Marxists considered the only embodiment of true humanity, wouldn't do any of the fine things Marx had expected. Workers were plainly unwilling to disrupt their own comfort and material well-being to produce a massive democratic revolution.

So Lenin anointed the intellectuals as the conscience of the workers. Above the intellectuals, he erected the Communist Party elite (in the USSR, the Politburo). And to serve the guiding will of that elite, there was (and is) an army of secret police, butchers, informers, psychiatrists, and sham prosecutors and judges. Stalin developed these "scientific" techniques into the high art of massive, even global terrorism—all in the service of the impossible ideal.

But do true believers give up because of all this? The horrors of the Inquisition, the Crusades, the Holy Wars, and other bloody projects of Christianity did not put an end to this religion. Similarly, the barbarism perpetrated in the name of Marxism will not convince many people that Marxism is a dead end. Instead, thousands of Marxist intellectuals are running around patching up the true faith.

The latest effort is evident in America with the reemergence of the ideal of industrial democracy, in the guise of a system now called "economic democracy." Its contemporary advocates sometimes explicitly reject Marxism, even though many began as hard-line Marxist socialists. At other times they insist that Marx was misunderstood. In the words of Frederic L. Bender, "Nothing justifies the deeds of a perverse Marxism (e.g., that of Stalin); a proper understanding of Marxian humanism, and its betrayal, in contrast, enables us to raise afresh the question of means and to reevaluate the relevant historical, economic, and political facts."

What the economic democrats and Marxists do have in common, however, is the advocacy of what they call "democratic, worker-controlled production [which] would extend democratic choice to work, employment, income, and technology." In their book *Economic Democracy*, Martin Carnoy and Derek Shearer go on to say that the economic democratic "reform must transfer capital from the corporations to the public, so that the people who work and consume can collectively and democratically decide what to do with it."

How is this transfer of property to be effected? "The logical vehicle for that process should be the government—our democratically elected legislature and executive," write Carnoy and Shearer. "Yet the government is heavily influenced (if not controlled) by these very same corporations." So before the reforms can be achieved, "it is essential, over the next two decades, to build a mass political movement," along lines evident now in many small communities where local left-leaning leaders are heavily involved in rent-control advocacy, "community housing" projects, and various phases of city government, all with an eye to democratic control of economic matters.

WE ARE SEEING A VIRTUAL REPLAY of the early developments following the initial impact of Marxism. Marx himself did not call for slave labor camps. Nor did he advocate the establishment of intellectual elites or of institutions like the Soviet Politburo. But he did maintain that the workers for whom the revolution was to be fought did not enjoy a state of self-consciousness fully enough developed to lead the revolution.

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ELECTRONIC REPRODUCTION PROHIBITED

Marx was guided at least at first by the view that "no social order ever perishes before all the productive forces for which there is room in it have developed; and new, higher relations of production never appear before the material conditions of their existence have matured in the womb of the old society itself." This means, essentially, that socialism must come about—either gradually, even peacefully, or else by means of violent revolution. Such a revolution will occur when the workers realize that it is in their interest to change things. And since the workers are in the majority, this might be accomplished by democratic means. In that case, the famous "dictatorship of the proletariat" will be a democratic dictatorship.

This is bad enough, of course, but it does seem to hold to certain populist, democratic ideals that appeal to many bona fide liberals. If the people *want* socialism, well, why not? Surely, enacting the people's will satisfies the standards of democracy. We might wish that the majority of the people liked individualism and property rights, but if they don't, there is nothing we can do, can we?

But this line of argument is a fraud. The fact is that the majority of the people won't really be part of an uprising against a system that protects their private property. Corporate power is, after all, people's power, however much this is obscured by deceptive rhetoric to the contrary. Corporations are owned by pensioners, employee groups, stockholders, executives—about as wide a cross-section of the people as one could get. The myth of the people on the one side and the corporations on the other is a desperate effort to distract people from realizing how nicely the corporate system can work for them. It aims to make them embrace state power as an alternative.

In reality the masses of workers are nowhere to be found in most efforts to transform the system to socialism. And there is nothing in economic democracy that distinguishes it in practice from socialism. Both aim at expropriating the means of production from private hands for the public domain.

The great appeal of economic democracy lies in its implicit commitment to *everyone* in society having an equal say about things. Voting carries this impression with it. And it carries the impression of civil liberties, too.

But the actual facts are different, and have been throughout the history of socialism. For example, the great democrat Marx did not hesitate to jump on the bandwagon of the extremely elitist communist movement in Russia. He rationalized this by claiming that it "is one of those exceptional cases where a handful of people can make a revolution. . . . And if ever the Blanquist fantasy of convulsing an entire society by means of a small conspiracy had any chance of success, then the place is undoubtedly Petersburg." Ever since then, most fighters for the Marxist dream of heaven on earth for everyone have not hesitated to sacrifice democracy for socialism.

Consider a few recent developments in America. Enemies of capitalism want to engineer equality between men and women. While equal treatment may be a laudable goal, they want to use governmental coercion to achieve it. And then tactics are employed that these zealots would unhesitatingly condemn if used by the CIA or FBI.

For example, in 1980, a Labor Department investigator in an employment-discrimination case at the Law School at the University of California at Berkeley pushed his investigation to the point where it could hardly be distinguished from totalitarian methods. He secretly monitored law school classes by posing as a student. The investigation had been instigated by the "Coalition for a Diversified Faculty," which complained to the Labor Department that the law faculty was dominated by white males and that "intellectual stimulation in general is diminished by time spent on defending the status quo rather than facing squarely the problems of allocation of power and goods in society, beginning with [the law school] and working together for peaceful social change."

When the investigator's tactics were discovered, he was unrepentant. He met with law school officials and, according to the *Los Angeles Times*, made it clear that he was directly interested not only in hiring practices but also in the content of the law school's courses and the manner in which they were being taught. When the associate dean protested, the investigator retorted that "anything that would be discouraging or displeasing to minority students would be within [the Labor Department's] jurisdiction to observe and correct."

Academic freedom out the window! The revolution must be served!

Another affirmative action case further illustrates the point. Three years ago, a University of Georgia professor named James A. Dinnan refused to reveal how he voted in a 6-to-3 decision to deny tenure to Maija Blaubergs, a linguistics and women's studies professor. When Dinnan refused, he was jailed on the order of a judge who was hearing a sex-discrimination suit brought by Blaubergs. Most of the university community was scandalized—but the Georgia director of that bastion of civil liberties, the ACLU, claimed that the judge's move ordering Dinnan to disclose his vote was "not an infringement of [Dinnan's] rights."

This indifference to Dinnan's personal privacy was not rationalizing some conservative intrusion on academic freedom, the sort that leftists thought so offensive and characteristic of McCarthyism. No, it instead typifies the benign, paternalistic, and enlightened sensibility of liberals and egalitarians who not only object to discrimination but will condone abuses of the most elemental rights to weed it out.

THE POINT IS SIMPLE. When the democratic ways to achieve the ultimate goal are inefficient, others must be used. That is the history of socialism in Russia. It is going to be the story everywhere else to the extent that socialism makes inroads. For when the aims of the socialists are thwarted by democratic means, the helplessness, stupidity, or malleability of the people will be offered as the rationale for side-stepping democracy.

There is very little that is democratic about the socialist goals of economic democrats. Their commitment to democracy is purely pragmatic. If and when it is expedient to dispense with democratic restraints, they will do so.

And they will be following in the footsteps of Karl Marx himself. Trotting out some of the humanistic passages from Marx doesn't disprove the fact that Marx would eagerly take short cuts when they were available. He would sacrifice any sense of humanity toward actual individuals if it would further the vital goal of making the "new man" of a future, glorious heaven here on earth.

So Stalin is, then, an excellent illustration of what would very probably result when people do not freely choose socialism. They must be made to swallow it whether they like it or not.

And if it were a winning strategy, Karl Marx—his occasional democratic and humanist inclinations notwithstanding—would not reject the idea in the slightest. ◻

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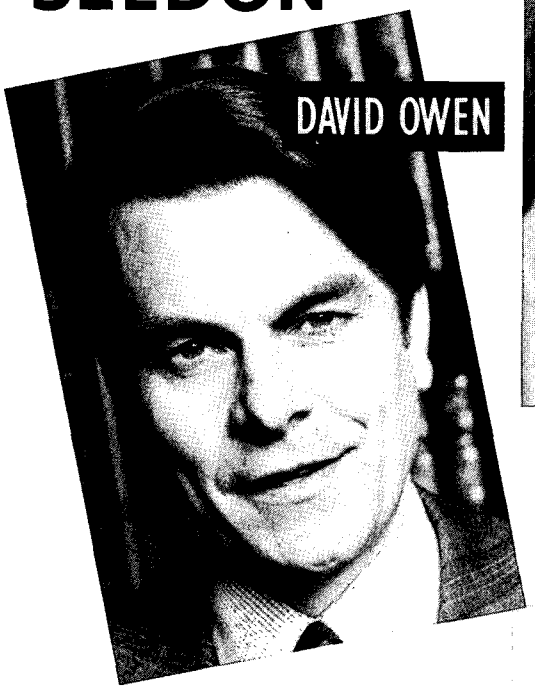
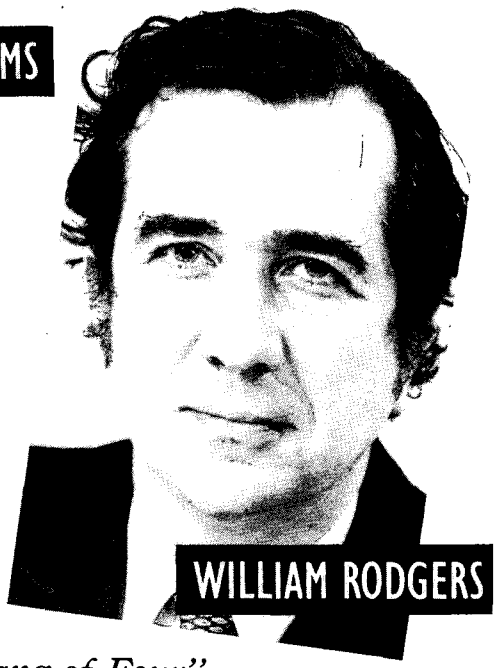
ELECTRONIC REPRODUCTION PROHIBITED

BY ARTHUR SELDON





Former Labour leaders one and all, Britain's "Gang of Four" are sparking a new promarket consensus.

God Save the Market!

People in Britain or the United States who see the Social Democratic Party as a rather milder Labour Party are misreading British politics. But they are misreading even more the shifts in technology and living habits that underlie a major political realignment.

The political landscape of Great Britain has changed dramatically, so much so, I predict, that British government until the end of the century and into the 21st century will now probably alternate between two market-oriented parties or coalitions—the new, "liberal" Conservatives and the Social Democratic/Liberal Alliance. They will certainly be more market-oriented than the Labour and Conservative parties that have dominated British government for 60 years.

The most important result of the approaching new convergence of policy is that both coalitions will be able to pursue market-oriented programs without the risk that their reforms will be reversed, as Labour often threatened in the past. Their task will also be eased by the British bureaucracy's shift away from the attitude that policies reinforcing the market structure of the economy and society should be resisted—what could the reforms do but create temporary dislocations, for they would likely be abolished by the succeeding government? (This was actually the fate of much British economic legislation after the war. The archetypal victim was the steel industry, which was nationalized, denationalized, renationalized, and is now being simply run down.)

Much of the long postwar *anti*market consensus shared by Conservatives and Labour reflected the political competition for votes, with both parties offering security to workers in heavy industry and "public" services and making welfare bribes. It also reflected the tendency, analyzed by the economists who have studied public-choice phenomena, for the policies of political parties in a two-party system to converge.

Today, the convergence is increasingly promarket. And the changing consensus rests on an older proposition in simple monopoly theory: a firm is less likely to give you exactly what you want if you cannot go to a competitor. So in politics. The Conservatives are more likely to sponsor market policies the more they hear their competitor—now the Social Democratic/Liberal Alliance—talk about decentralization, choice, competition, and harnessing market forces.

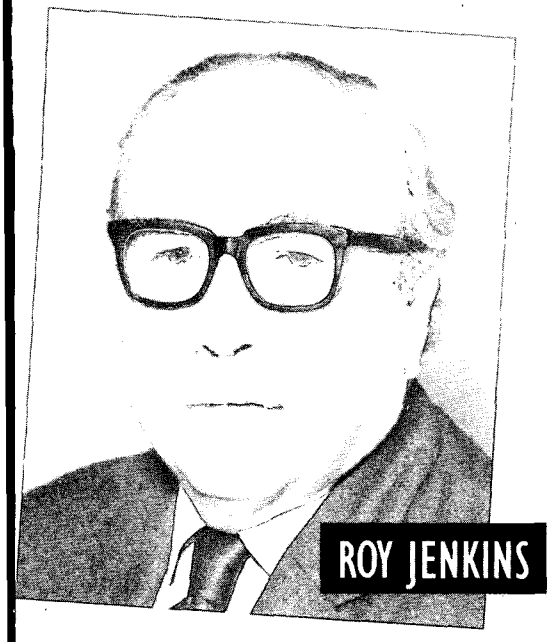
The Social Democrats: market populists versus Labour paternalists

The climacteric in the British political system, and its importance for British economic policy, is that the Labour Party is being replaced by an alliance of the Liberal Party, which has been out of office since 1915, and the Social Democratic Party (SDP), which was formed in

Photographs courtesy British Information Services

1981 by four senior Labour leaders who broke away from their party. Known as "the Gang of Four," they had all held positions in recent Labour government cabinets: Roy Jenkins, former chancellor of the Exchequer and high commissioner of the European Economic Community (EEC); William Rodgers, former transport minister; Shirley Williams, former education minister; and David Owen, former foreign minister, health and social security minister, and the group's most radical rethinker of policy.

My analysis of the prospects for British politics and economic policy in the


ROY JENKINS

1980s and 1990s is not affected by the Alliance's showing in Britain's general election in June. The Alliance won 26 percent of the popular vote, almost double the Liberal Party's 13.8 percent showing in the 1979 elections. But because of Britain's electoral system, it won only 23 of the 650 seats in Parliament. Of the two parties, the SDP did worse: while the Liberals registered a modest net gain of 7 seats, the SDP lost all but 6 of its 29 MPs. Among the losers were Rodgers and Williams. Even so, they retain much influence within the SDP.

Despite this disappointing showing, the party is far from dead. Its ex-Labour leaders are still in the process of shaping its policy. What some of them are saying this year is different from what they said in 1982, still more than 1981, and will be different again in 1984 and 1985. That this process should take time is not surprising.

The essence of the development is that they are moving in thought, and in spite of its Labour origins, the SDP will emerge as a market-oriented party over the coming 5 or 10 years. How fast and how far we shall see, but the signs are that it will emerge as more market-oriented than the Liberal Party, which is now more social-democratic in the European sense than liberal in the classical sense of libertarian.

There is a debate within the SDP between Labour-oriented paternalists like Shirley Williams and market-oriented decentralists like David Owen. The debate will continue, but it will end in victory for the market-oriented leaders. This will happen not because political leaders have seen new (or rather old) truths. It will happen because all the postwar collectivist policies before the advent of the Thatcher government in 1979 failed and above all because the party leaders will have seen that it is better—for liberty and prosperity—to go with rather than against the grain of the market.

The market forces that are impelling this political shift are technological change (supply) and incipient social advance (demand), which reflect the preferences, suppressed capacities, and emerging aspirations of ordinary people. On the technological-supply side, as SDP leaders are recognizing, an open society with a free market is the only hope for the rapid incorporation of technological innovation into the British economy. For 20 years, that economy has been ailing under increasing government and other centralized control that capitulated to organized interests opposed to change, mechanization, and modernization generally.

The "social"-demand market force lies in the embourgeoisement of the masses ("the working classes"). They will reject producer dominance in state industry and welfare, and they will demand better quality in education, health, and housing than government can supply out of tax revenues. This social demand will be reinforced by the revival of the family as the social unit and the growing emancipation of women, whose social roles have traditionally required greater practical understanding of the market than men's.

David Owen, the heir apparent to SDP leadership now that Roy Jenkins has stepped down, has realized all of this sooner than other SDP leaders. Referring scornfully to the clause of the Labour Party Constitution that defines Labour's goal as "the common ownership of the means of production, distribution and exchange," Owen has declared, "Those of us who broke away from Clause IV socialism did not do so merely to peddle Fabianite revisionism.... The task for the Social Democrats and Liberals is to develop the concept of the social market." Two of the other three of "the Gang of Four" have also been recognizing these new forces, even if less coherently.

In a televised lecture delivered while he was high commissioner of the EEC, Jenkins warned that government spending of 60 percent or more of the national income would endanger liberties. No British socialist would say that: he wants 95 percent or 100 percent.

And SDP leader William Rodgers, considered a tough and shrewd politician, said soon after Labour's defeat in the 1979 elections: "What is wrong with choice and diversity? Why should enterprise and opportunity be dirty words?... Many people see social progress as a higher net income and more money to spend on themselves." By 1982, Rodgers was talking of letting "the market economy work more efficiently."

The course of internal debate in the SDP and the Alliance as a whole between the market-oriented populists and the lingering state paternalists is demonstrated in the case of education policy. "Free" education, financed by taxation, has been a sacred cow of British politics in all parties almost since it was begun in 1870, but in the last few years it has been losing its hold on public opinion.

The paternalist view was put strongly by the fourth member of "the Gang," Shirley Williams, in 1981. In her political testament, *Politics Is for People*, she wrote that "the freedom to send one's children to an independent school is bought at too high a price for the rest of society." But that was two years ago. More recently, Williams's totalitarian approach has been replaced by ideas for narrowing the gulf between government and private education. Her paper prepared for a seminar in Israel in May indicated that she was moving rather quickly in a libertarian direction.

They're "new" Conservatives—but socialized medicine is "safe"

The term *social market*, used by both David Owen and Conservative leader Keith Joseph, requires comment. In Britain (as in Germany), it is not an economist's analytical term but a politician's tactical euphemism—a weasel-word. It expresses the politicians' anxiety to demonstrate to the populace, who have votes as well as compassion, that the market can be efficient *and* humane.

Economists have long argued that there is a remedy if the market economy produces inequality of income that prevents the lower-paid from buying civilized minima in food, housing, education, and health care. So as not to distort the incentives that lead to maximizing efficiency, income can be redistributed *outside* the market to pay for food, housing, etc., *inside* the market. This is the neglected promarket method that was abandoned (or forgotten) in the British welfare state that redistributes "free" services outside the market.

British Conservatives have at long last learned and applied this issue of the market since 1979, boldly in some cases and hesitantly in others. Council ("public") housing, which rose to 6 million units by 1979—or one in three homes—is being sold to tenants, but at a rate that will take half a century to dispose of the lot. Elsewhere, the Conservatives have barely begun to desocialize welfare (or even the mass of nationalized industry). They have been painfully slow on reducing the power of government over education and, most ill-advised of all, they have said the National Health Service is "safe" with them.

Still, in the new political competition between the Conservatives and the SDP that has been proceeding at a quickening rate, the Conservatives have a long lead. Sir Keith Joseph, a key figure in the Thatcher government, first spoke of the "social market" in the mid-1970s. More recently Sir Geoffrey Howe, another leading Thatcherite, used the term *liberal Conservatism* in an article on the philosophy and politics of the new Conservatives in the *Journal of Economic Affairs*. "We are strongly committed to economic and social policies founded on freedom," he explained. "We are attached to and have faith in the potential of individual effort. We want to harness that effort to the common good....We are committed to the rule of law rather than the authority of the state.....In the best and true sense of the word, we are liberal Conservatives."

Howe was unambiguous about basing liberal Conservatism on an increasing use of markets in industry, where the argument is clear. But he was equally forthright about turning to markets in welfare, where the argument is not well known, where it is apt to produce emotional reactions about callousness toward the poor, and where there is strong resistance to reform from teachers, health workers, social-service officials, local politicians (not least in the Conservative Party), and trade unions.

Yet that is the philosophy that the Conservatives are developing strongly. Evidently they are determined to go ahead with their market-oriented policies in their second term and expect public support for it. As the June general election approached, statements of policy became less explicit, perhaps to avoid arousing the vested interests that will have to be dislodged. But the new instruments of policy will have to re-emerge. Howe's general principles are a landmark in the public declarations of the formerly paternalistic, patrician Conservative Party—and in British political history.

This is the strong challenge to the Social Democrats and the Alliance as a whole. David Owen and the others must proceed to clarify their counterproposals. The new Conservative challenge is appealing over the heads of the Alliance parties' leaders to their followers in *all* social classes, and they succeeded in attracting millions of working-class votes in June. The prospect of smaller government, lower taxes and fewer bureaucrats, owning a home, acquiring a business or property ("every man a capitalist") carries with it the anticipation of more after-tax earnings to pay not only for home improvements, clothes, and holidays but also for better education and medical care. For the more distant prospect is of more choice in education through school vouchers and "open enrollment" (across district lines) and in medical care through private health insurance.

The future of Britain: initiatives from the bottom up

The interaction between economic ideas and the political realignment is two-way. First, the Social Democrats broke away from Labour largely because the orthodox Labour-socialist solution of more government control for almost every problem had been tried and found dismal. In 10 years of Labour rule between 1964 and 1979, and in the whole postwar Labour-Conservative anti-market consensus, the orthodox approach failed. So much for the socialist/centralist idea. Second, the effect moving in the reverse direction is that the party realignment is opening the way to a readier hearing by "practical people" in all parties (except Labour) for ideas that would have been dismissed five years ago as "politically impossible."

These two influences will reinforce each other. And their interaction will be strengthened by three profound changes in British society.

First, the British people are going to support whichever of the two coalitions, new Conservative or Alliance, is the more effective in opening up opportunities for new services and expenditures. But they will not wait for political parties (or bureaucracies) to reshape the institutions that will give them the wider choices now increasingly within their financial reach. They will simply not use "public" services in fuel, transport, education, medicine, housing, garbage

The SDP's Rising Star

In various accounts of "the Gang of Four" that founded Britain's Social Democratic Party in 1981, there are descriptions of Roy Jenkins as easy and accommodating, William Rodgers as thoughtful and charming, and Shirley Williams as warm and sincere. But descriptions of David Owen, expected to be chosen the next SDP leader, are very different.

The *Manchester Guardian* has referred to Owen as "abrasive and difficult," and the *New York Times* reported that he "irritates older colleagues by his disinclination to suffer fools at all, let alone gladly." A former SDP official told REASON that Owen is "cold and calculating," "arrogant," and "the most ambitious man I've ever met in British politics."

Owen may not be the most lovable individual in the United Kingdom, but he's certainly one of its brightest politicians. His beginnings in politics were unusual. In a country where politicians frequently have backgrounds in law or history or journalism, Owen was trained as a doctor, which profession he practiced briefly. (Few other members of Parliament have published articles in such distinctly apolitical journals as *Neurology* and *Clinical Science*.)

Moreover, Owen got his start in politics as a Labourite representing a Conservative constituency. In 1964, at the ripe old age of 26, he first ran for Parliament to represent Torrington but was defeated. Two years later he ran in the Conservative stronghold of Plymouth-Sutton and scored an upset victory. Although the boundaries of his district were altered slightly, he has been representing essentially the same constituency for 17 years now. Even a Conservative landslide was not enough to unseat him in the 1979 general elections that made Margaret Thatcher prime minister.

In the late 1960s and early 1970s, Owen's career progressed at a steady but unremarkable pace. When Labourite Harold Wilson was prime minister, Owen held a handful of minor posts. When conservative Edward Heath was prime minister, Owen was opposition spokesman on defense issues, although he resigned in 1972 because of Labour's foot-dragging on British entry into the Common Market. In the Labour government of James Callaghan, Owen had the respectable position of health and social security minister, then moved to the second spot in the Foreign Ministry.

collection, and many more. They will "go private" and pay in the market. Britain cannot much longer be run half consumer sovereign, half welfare supplicant; half free, half slave!

Second, where they resent taxes to pay for "public" services they reject or think should not be provided (such as subsidized Council housing for the nonpoor), people will simply not pay their taxes. This rejection of government is undoubtedly spreading, and no one knows its extent or rate of growth. The official statistic of 7½ percent of national income escaping taxation is, I would say, certainly too low.

Third, the rate of technical and social change is now probably too fast for centralized government institutions to absorb. *The polity will lag behind the economy and society.* The question is which of the two coalitions will sooner recognize the urgent need for government to streamline its own processes and make the economy more flexible and decentralized.

Will the Alliance beat the Conservatives in the market competition?

The SDP's loss of seats in the June election will not halt the long-term political advance of the Alliance. The SDP attracted 3.5 million votes after less than three years of activity, after all. It has yet to resolve its internal debate between the old paternalists and the new libertarians. But an increasingly affluent society will not want even more paternalism; so the libertarians will win the argument.

Already, David Owen, who looks to be emerging as the market-oriented leader of the SDP, has caught up with the new Conservatives on the central theme of "the social market" and is saying some courageous, even "outrageous," things *first.* Minister of Employment Norman Tebbit, one of the strongest ministers in the Cabinet, has lately talked, although tentatively, about making strikes in the public sector illegal. Owen said as much in March—not tentatively. The SDP leaders, all of whom had to handle trade unions directly when in the Labour cabinets of the 1970s, know them better than do the new Conservatives because they were (then) on the same side in politics. Moreover, the SDP can take a tougher line because of its mostly Labour, trade-union, or working-class origins—its leaders cannot be written off as Conservative or capitalist "class enemies" of the people.

On the general working of the economy, Owen is as outspoken as the most advanced Thatcherite: "One of the skills of managing the overall national economy is in understanding the extent to which an amalgamation of public and private sector attitudes and policies destroys the dynamics of the systems, when curbing profits limits investment, when squeezing prices limits expansion, when interference in wage bargaining affects productivity, when job security impairs innovation and risk taking."

That is about as "Whiggish" a free-market declaration as any British politician, even Sir Keith Joseph, has made for some years. And it is more penetrating than most. Not least, Owen is no narrow nationalist, and no less liberal than Sir Geoffrey Howe.

The Labour Party will take a long time a-dying. But it is putting itself out of court by allowing its policies to be dominated by economic technocrats with a nationalistic, almost autarkic "Alternative Economic Strategy" for Britain or, even more hilariously unrealistic, for the whole of Europe. The party will eventually split again between the socialists and remaining democrats. Only the aging Labour stalwarts will vote Labour, plus some idealistic young, misled by the latest edition of socialist promises. Middle-aged men with home mortgages, two cars, and video recorders will not—and their wives are preceding them; they increasingly voted Conservative or Alliance in June.

Classical economic liberalism is returning to Britain because it makes possible the acceptance of new enterprise, competition, and the test of the market—the only cultural ambience in which we can keep pace with Europe, America, and the Far East. The days of government initiatives based on ignorance of public preference, distorted by political calculation, and susceptible to sectional pressure groups are numbered. The future of Britain lies in creating all possible initiatives *from the bottom*—by individuals, groups and small firms, commercial enterprises, cooperative ventures, and mutual aid. That is the truth that, ironically, Labour is doomed by its philosophy to *reject.*

The two political contenders who do see the truth start with unequal advantage. The new, liberal Conservatives have a long start. The SDP and the Alliance could catch up and pass them in 5 or 10 years. But the important effect on *current* economic policy is that it can be more market-oriented because, after the experience of nearly 40 years of anti-market policies, both coalitions alternating in government will have to accept the principle. They will differ on how to "make the market economy work more effectively," but there will be no party that wishes to destroy it, because it will be accepted at last, after 100 years of futility, that it is indestructible. ◻

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In 1977, Foreign Minister Anthony Crosland died. It would have been customary for Callaghan to pick a new foreign minister from among his senior cabinet ministers. Instead, he bypassed his cabinet and elevated Owen to foreign minister. Then 39 years old, Owen was Britain's youngest foreign minister in recent memory.

As foreign minister, Owen was a firm believer in detente and multilateral disarmament, which put him in conflict with unilateral-disarmament advocates on Labour's left wing. He cooperated with the US Department of State, and his Third World policies—particularly on the question of Rhodesia—closely paralleled the views of then-UN Ambassador Andrew Young.

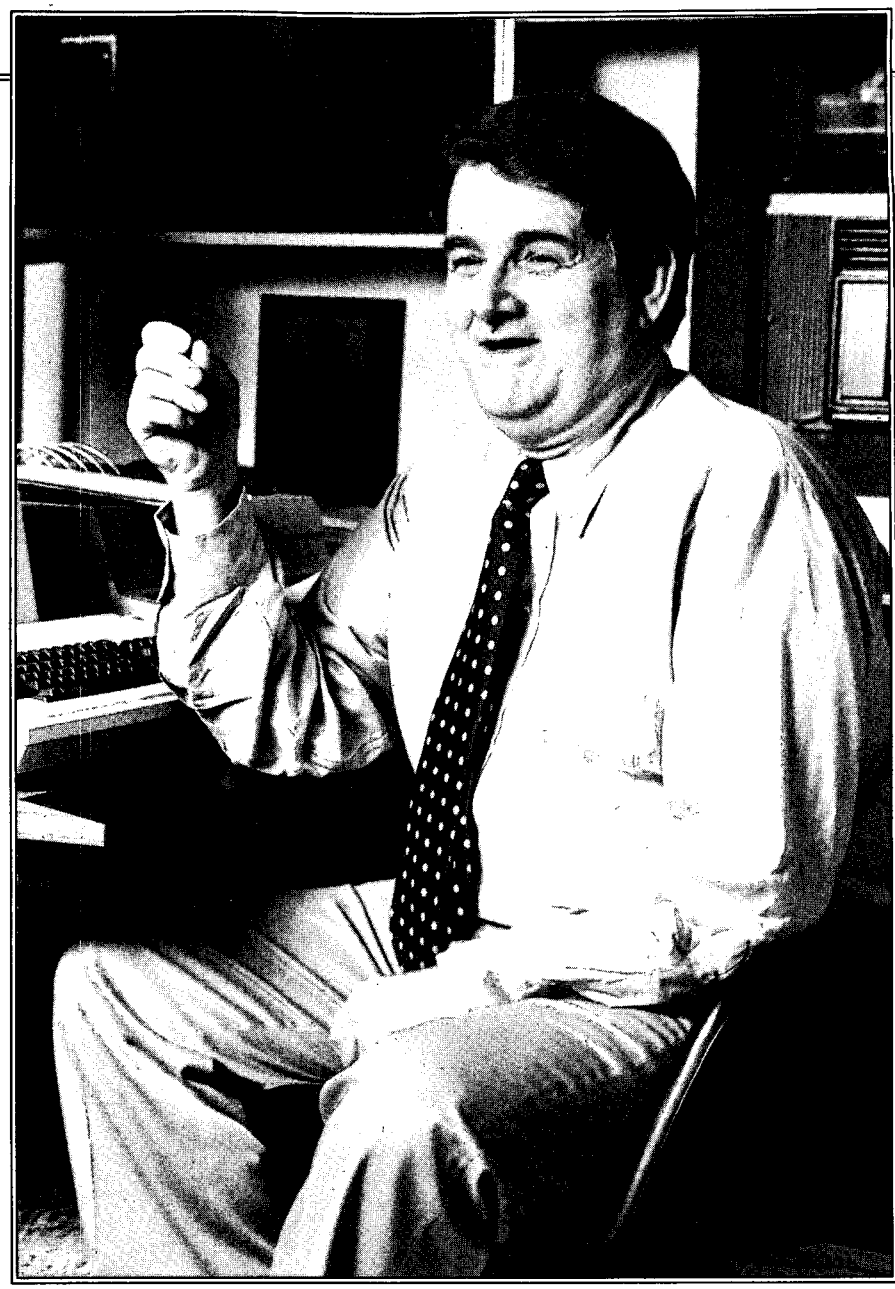
Within the Labour Party, according to the *New York Times,* Owen was "a radical in many things, [but] he nonetheless abhorred the Marxist and Trotskyist element in his party." Owen's disenchantment with Labour reportedly began at the 1980 party conference in Blackpool, when he was hissed while delivering a speech defending the Atlantic alliance. It was the next year that he helped found the SDP.

In an ongoing tactical debate with the SDP over where to direct its appeal, Owen has consistently argued for going after left-of-center voters who are alienated by Labour. Two years ago, in the first contest for the new party's leadership, Owen ran against Roy Jenkins, an advocate of more-conservative tactics and a closer coalition with the Liberals. Owen lost.

But in 1983, Owen's opportunity came. He eloquently defended the Thatcher government's successful Falkland Islands campaign, and during the election, the *Guardian* noted that it was Owen rather than Jenkins "who emerged as the star of the show." Days after the election, Jenkins stepped aside as SDP leader, endorsing Owen as his succesor.

After Jenkin's desultory leadership, Owen may provide a useful boost for the SDP. In the wake of the election, the *Guardian* considered whether the Labour and Conservative parties would be able to derail the SDP and maintain their old monopoly on government. The paper concluded, "If Dr. Owen can sustain the appeal and momentum he has built up since the Falklands war, that could well prove to be a formidable task."

—P. G.



REASON INTERVIEW

Warren Brookes

When Warren Brookes began writing a column for the Boston Herald American *in 1975, anyone could have told him that Boston—stomping grounds of the Kennedy family, the Kevin White machine, Paul Tsongas, John Kenneth Galbraith, and Lester Thurow—was the last city where a free-market columnist like him could ever survive.*

But eight years later, Brookes is still writing his column. That in itself is a remarkable feat. Even more remarkable is that Brookes has enjoyed far more success than anyone could have predicted.

In a state with (in his words) "a tax burden soaring to choking heights and an economy that had fallen apart at the seams," Brookes in 1978 helped spark a massive tax revolt that reduced Massachusetts's tax burden by 18 percent in three years. In the wake of this tax cutting came the lowest unemployment rate in the nation and 100,000 new jobs created in the midst of a recession.

The spearhead of the tax revolt was Proposition 2½, a successful ballot referendum to cut property taxes to a maximum of 2½ percent. Brookes has been called the father of the proposition, and rightly so. He suggested the 2½ percent figure in a column; 14,000 pieces of favorable mail poured in; and a political turnaround in Massachusetts began.

Brookes is now syndicated in more than 40 newspapers and has a book, The Economy in Mind *(Universe Books), to his credit. He has been described by George Gilder as "the nation's best columnist on economics and society largely because he is the best educated." Aside from a Harvard degree in economics, much of Brookes's education is of a kind rarely found among economists: a 20-year career in the corporate world.*

Brookes was recently interviewed by REASON *contributor Tom Hazlett, a journalist and economics professor, in Brookes's home near Boston.*

REASON: Your career is somewhat interesting, because you didn't emerge bright-eyed and bushy-tailed as an eager boy-journalist. What was your past?

BROOKES: Well, sort of devious. When I was in college I did earn part of my living as a journalist covering Harvard's sports and news for, first, the *Boston Globe* (back when the *Globe* was a real, ordinary, true populist, Democratic newspaper—before it became the liberal, radical chic paper it is today). As a stringer

Photographs by Kevin A. Twombly

at Harvard, I earned about a third of my way through school.
REASON: What were your politics then?
BROOKES: I was sort of what you might call a Rockefeller Republican—thoroughly liberal but brought up in the world protected. My family did not have money, but I went on a scholarship to a prep school and then on a scholarship to Harvard.

After I left college, I went into business. I went to work for Kimberly-Clark, the paper company in Wisconsin, where I began as sort of an experimental management trainee in the marketing area, which was then a new area.
REASON: What was your major in college?
BROOKES: Economics.
REASON: Did you ever take a class with Joseph Schumpeter?
BROOKES: Sure did! I audited it; I was not enrolled in it. I took his last course, in '48, '49, I think it was. I took John Kenneth Galbraith, who I remember was one of the most boring. And he taught me everything I then had to "un-learn" in the corporate world.
REASON: So he was not influential on you in any sense?
BROOKES: No.
REASON: Did anybody leave a mark?
BROOKES: No. I don't really think so. What left a mark on me, frankly, was finding out what a difference there was between the real world of industry and the marketplace, and what I had been taught at Harvard. It was slowly dawning on me that I had been taught a totally different macroeconomic world than actually existed, and I had to "un-learn," basically, most of what I had learned at Harvard.
REASON: You say the macroeconomic world. You're saying that most of the training at that time was concentrating on Keynesian equilibrium?
BROOKES: Sure. What we got in our money and banking course was literally a course in a new approach to fiscal management of the economy. We got the whole Keynes treatment. This was back in '49, '50, I believe it was. It didn't dawn on me, at that point, of course. I was not very politically aware—our generation wasn't. And I think the American public was generally not aware of the trends in economic thought. If they had been, they would have been a little more worried.

I spent the next, well, up until 1963, working for Kimberly-Clark, W. R. Grace, and then for an advertising agency, primarily doing marketing and merchandising work. I was pretty darn good at it. I was heading for a very promising financial situation. At that point, about '63, the *Christian Science Monitor*, which is a love of mine because I happen to be a Christian Scientist, came after me and said they wanted to start to expand the *Monitor* because it's sort of quiet and a little backwater. They wanted somebody who understood direct-mail marketing and understood media and so forth. And I did something that everybody thought I was crazy to do, and maybe it was. I went to work at a fairly reduced pay as a labor of love, to try to put the *Monitor* on the map.

While I was there I did some public research, for the church was beginning to wake up to its own sort of public. I spent the last two years I was there doing public-affairs research. And that's when I really started to focus on the trends in public thought, in economic thought, in social thought.
REASON: When was this?
BROOKES: This was the period from around 1970 to 1972. I wrote a whole flock of elaborate papers for the board of directors to get them to move beyond the narrow concerns of the church itself and to think in terms of forces that were shaping and changing the world in which we live. About the end of that second year, I kind of worked myself into a dither. I was working very hard at that time, a very intense time, and I had a real knock-down, drag-out physical breakdown. I was just physically exhausted. All the circuits quit on me! I had to quit completely—go home and lie around for a couple of years. It was very frightening.

In '74 I decided I could not let the church sustain me any more; I wanted to do my part. I did not want to go on disability and go through all that stuff. I don't believe in it. My friend, Bob Bergenheim, had been at the *Monitor* and was now the publisher of the [*Boston*] *Herald.* I had been watching a lot of television news, and I became more and more frustrated by the kind of slant—not just the slant, but the shallowness of the reporting. So, I wrote a series of columns on economic issues. I sort of just played around with it. I did a series of 10-12 columns and mailed them off to Bob, asking if his readers would be interested in this sort of thing. He called me back the next day and said, "Yeah, we'll run 'em!" So my column started running once a week in the fall of 1975, and the paper got a terrific response. So I began to write three columns a week, for pay, and I've been at it ever since.
REASON: Did you use a lot of that stuff in your book?
BROOKES: Well, yes, although it went through a process of sorting and sifting and paste-potting, and then I rewrote and wrote and wrote. And of course, my experience in Massachusetts was very useful, because this was the laboratory that we were playing around in. What to do? How to make this state come out of its doldrums?
REASON: What kind of personal involvement did you have in the Prop. 2½ campaign?
BROOKES: I had been writing a lot about the thesis that high and rising taxes have a negative impact on economic growth at the state level. I'd been following Art Laffer's position and the debates over it, and I was studying the apparent correlation between relatively rapid growth at the state level and relatively low tax burdens—or at least tax burdens that were not rising—and, conversely, between a relatively low rate of growth and tax burdens that were escalating. Massachusetts was a classic example. I first flung my hat in the ring on this—there was an article in January 1976, one of my first articles, called "A Tale of Two States," about New Hampshire and Massachusetts. Of course, it's been a magnificent example. Because, here you have two states, both of which are energy-deficient, both of which don't have any natural resources especially, and here's New Hampshire growing at two, three, four times the national rate, and we're growing at half the national rate and we're right next to each other. The obvious difference was that New Hampshire had the second- or third-lowest tax rates, and we had the fourth- or fifth-highest. I talked to industries that were moving back and forth. I did some additional, very simple, analyses of tax burdens and trend growth of employment and so forth, and then I got interested in the tax-limitation group.

In the spring of 1978 I was watching this whole California thing with the campaign for Proposition 13 to cut property taxes. I just didn't honestly believe that they were going to be that successful—the opposition was so intense. And I said, I wonder what would happen if we did that here? Would it pass? I asked in a column. It appeared the second day after Prop. 13 passed. In it, I repeated Governor Michael Dukakis's in-

famous miscalculation; he said our people in Massachusetts were too smart to fall for anything like that in this state. Of course, we had the highest property taxes, bar none, in the nation—the highest property taxes in the universe. And Dukakis is such an arrogant man. At that point I had a very sympathetic editorial department, and they were giving me play like mad. They put my column up on the front page: "What would it do for Massachusetts?"

I said I didn't think we could handle 1 percent, because we were already at 4½ or 4¼—we just couldn't handle that big an adjustment. But I felt, with the reevaluation impact, we could comfortably handle 2½ percent. I did some calculations. Well, immediately the figure 2½ got stuck in people's minds, and the next thing you know, a couple of committees had been formed, Proposition 2½. But the *Herald* put the figure in effect, because they ran a promotion on the front page saying, "What do you think of Warren Brookes's idea of 2½%?"

REASON: You got to pick the number.

BROOKES: I picked the number.

REASON: Yeah, well you're going to be coming under fire from a lot of people for not picking zero.

BROOKES: I'll grant you. I right away got fire for picking more than 1 percent. But it really forced this state to reduce spending. There was no "free lunch" in Prop. 2½ coming out of a big [state budget] surplus like you guys had in California.

REASON: Where have they cut?

BROOKES: Six thousand employees at the state level, which is about 10 percent. Local government employment was about 280,000, and it has gone down to about 255,000. So, the biggest cut came at the local level, about 25,000. A lot of it was attrition. A lot of it was plain old lay-offs. They laid off 7,000 teachers, for one thing.

REASON: Now, what's happened to your economy here?

BROOKES: Well, in the last recession, in '75, Massachusetts had the highest unemployment rate of any industrial state. This year we have the lowest—around 7½ percent, which is only about one point higher than when Reagan took office in 1981. I think that's evidence of sprightly survival, if you will.

And there are other things. Part of the measure was to cut the sales tax on automobiles. We cut it from $66 to $25 per $1,000. Massachusetts used to have the lowest automobile sales in the nation. Last year we had the best. Laffer predicted that. Art Laffer said, "You are going to have a hell of a sales program for automobiles." I said, "Really?" He said, "You bet." That is exactly what has happened.

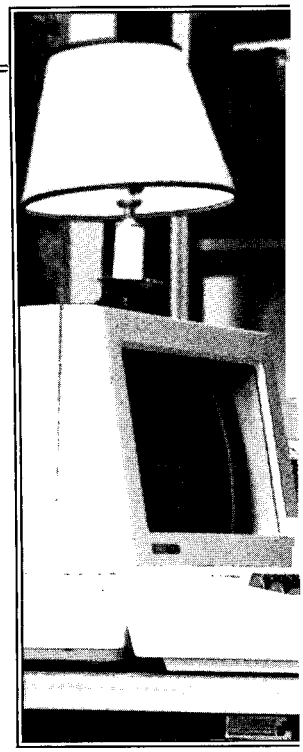
REASON: So why won't Ronald Reagan cut taxes? Last year he helped get a tax *increase.*

BROOKES: Well, I think Reagan has been basically homogenized, but I'm not prepared to write him off yet. I think that Reagan, to the degree that the economic recovery manifests itself, will reassert some of his old values. I think he has been "Rockefellerized" over the last year by the likes of Jimmy Baker and that crowd.

REASON: But how do supply-siders explain that during this time of actual tax increases, the economy has turned around?

BROOKES: Supply-siders have to be careful. You can't be dogmatic. I try to define it, at least in my book, as an attitude of thought rather than as a strict set of principles—an attitude of thought that tends to trust the market more than it trusts government, that tends to view the tax burden as a negative for economic activity, that tends to view microeconomics as more important than so-called macroeconomics, that tends to be committed to an expansion of the rate of private-sector growth as opposed to a restricted private-sector growth. That, to me, is what supply-side economics really is. I'm fairly impartial. I pick and choose from what seems to work.

"Once we reach the point where everything of value is coming out of consciousness, we have the basis for the perfectly free economy."



REASON: Are you in favor of unilateral free trade?

BROOKES: In the theoretical sense, yes. Ultimately the money our consumers spend on foreign goods comes back to us, so why should we worry about whether foreign governments are subsidizing the goods? Fine. If they want to give us their exports cheaper, that's their business.

But I do think that a time comes when you ought to be using some leverage. The Japanese have, in fact, constructed very, very interesting ways to make it difficult to get into their markets, and I think we ought to be banging away at that politically. But, I don't believe we should simply threaten to cut off their goods in the market.

REASON: What are you going to "bang away" with if not with trade barriers?

BROOKES: I think in the case of Japan we have moral suasion in the sense that we provide so much of their defense budget.

REASON: Why don't we just move away from moral suasion by cutting out our subsidies to their defense? You have some interesting numbers in the book about the size of that subsidy.

BROOKES: Well, Japanese cars carry a "defense burden" of about $60-$70 per car. American cars carry a defense burden of about $350-$400 per car. So, that is one very tangible way in which Japan is riding on our marketplace. I would like to see Japan forced to take care of more and more of their own defense. I would say, look, you guys want free trade routes and you want all the advantages of sea ways open for your oil and what-have-you, and we're giving you all this. How about taking over a portion of this defense yourself, or we'll just have a little "defense tax." Call it what you will—a tariff—but we'd like to see you pay for more of our defense budget.

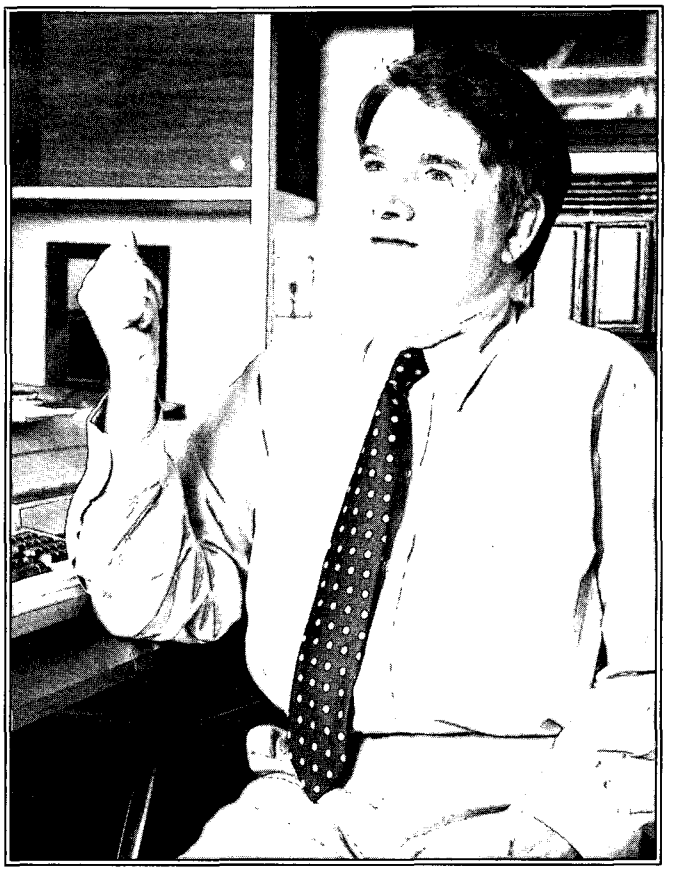
REASON: Why do trade barriers have to figure in there? Doesn't that actually *lessen* our bargaining position? Because what we are saying is that we are going to make ourselves less prosperous as a nation just to punish the Japanese...

BROOKES: Oh, I agree.

REASON: ...when we could simply withdraw our defense commitment to them on a gradual, announced basis.

BROOKES: I agree. I think we ought to tell NATO the same thing. I'm not an isolationist, but I'm all for those guys taking care of their own problems. I think that the defense budget can

"We have just lost our commitment to the notion that excellence and merit should be rewarded."



"I believe that freedom is the essential *value. I don't believe, however, that it is the* only *value."*

and should be reduced. I don't think we have to spend 9 percent of our GNP, or 8 percent, on defense. Okay, so the Russians are spending 12 percent—but *that's a lousy GNP.* Their GNP is less than half as good as ours on a per capita basis.

REASON: Well what—and this is really getting toward the meat of your book—what creates value?

BROOKES: Well, of course, our values are a result of our culture to a certain degree. What is valuable in one culture is not valuable in another, obviously. The creation of value, in my judgment, is the adding of qualities and characteristics to otherwise useless raw materials that make them useful to us, and we perceive them as having value.

But I am very concerned about the degree to which we have a tendency to think this is totally a mechanical and physical expression. That's one of the reasons I devote a large part of my book to a discussion of the influence of values on our economy—the influence of spiritual and moral values. Not moral in the narrow, sexual sense. That's not what I'm talking about. I'm talking about the values of commitment to work, commitment to quality, commitment to performance, commitment to doing things as well as we know how to do them, commitment to excellence. I think the greatest attack has taken place in the last decade, a broad-scale attack, on the whole issue of performance or excellence. We have just lost our commitment to the notion that excellence and merit should be rewarded.

Economists tend to look only at the balance sheet and say we are creating value and so forth, without looking at what's happening to the cultural values. The Japanese have proved to us that their cultural values have a financial translation; their commitment to work, to excellence, to performance, to certain basic loyalties to the group, and so forth—those all have an effect on their economy, their productivity, their willingness to make sacrifices, their willingness to save.

REASON: But interesting how we say that it's gained value through the market. Japan's culture wasn't in and of itself valuable because it was a good culture. They had the same culture a hundred years ago, and nobody gave two hoots about it.

BROOKES: Sure.

REASON: But now, it's proven within the context of the marketplace to be competitively successful...

BROOKES: But, let's face it, I mean, freedom is the essential element of the free market.

REASON: Okay, I wanted to get to that.

BROOKES: Sure. My basic commitment is to libertarian values. I believe that freedom is the *essential* value. I don't believe, however, it is the *only* value. I think it is important to recognize that we can destroy ourselves as hedonists and we can destroy ourselves if we abuse our freedom. The junkie is not a free man.

REASON: Well, let's see, I think it's pretty clear that if you go around maiming and pillaging your fellow coworkers on the assembly-line floor, for example, then it's not going to be a real productive society.

BROOKES: Exactly.

REASON: On the other hand, how does hedonism translate into the abuse of freedom?

BROOKES: It affects, for example, our attitudes about saving. We profess to be a great capitalist economy, but we don't save very well. Very broadly, my feeling is that we have gone from a society that had a profound commitment to long-term satisfaction to a profound commitment to immediate gratification. I think the whole trend in our culture regarding sexual matters is to put great emphasis on what Midge Decter calls a certain preoccupation with narcissistic attitudes—with the immediate gratification of personal desires, personal tastes, and so forth. This puts great strain on an economy that has to be, by necessity, prospective, forward-looking, willing to save and plan for the future.

REASON: But isn't it a great strength of the capitalist system that people can enjoy themselves and celebrate the prosperity that they have created?

BROOKES: Sure.

REASON: But you seem to be saying that you really don't trust people who enjoy the fruits of capitalism.

BROOKES: No. As a matter of fact, I don't anywhere propose that we should legislate these things. I am simply saying, however, that if half the society was sitting watching erotic movies all day long, we'd have a different kind of society. We would have an altogether different kind of culture, and I don't think it would be as productive.

What we need is an understanding of what real values are, what substance really is. And that, I think, is the job of the philosophers, the preachers, the ministers—to keep spurring us to seek, seek, seek a substance that lasts, that works, that makes us really happy, genuinely happy. This is a place for leadership rather than legislation. I think there has to be strong moral leadership in our society and that this is crucial to our economic productivity and therefore to our well-being. And I'm talking about the ethics of the way we treat ourselves, the way we treat our neighbors, the way we treat our children or our old people. I see a decline in those values.

REASON: I'm sensing that that decline, in your mind, is because of too much freedom.

BROOKES: No. No, I don't think so. I don't think you can have too much freedom in that sense of the word. I think freedom is an absolute value, and I'm committed to freedom. But I also am committed to helping people use their freedom, to maximize their freedom as opposed to minimize it. I think an awful lot of people today who say they're free are essentially not free at all. They have become real slaves to illusory enjoyments, as opposed to free in the sense of being able to really have dominion over their lives.

REASON: I want to ask you about your contention that business has to do more than try to maximize profits. In your book you say, "When the single-minded pursuit of profit dominates corporate thinking it can tend to exclude vision, hinder true creativity and productivity, debilitate the dynamism of enterprise and ultimately reduce wealth itself." Are you saying that when people really try to pursue profit, they're not going to make a profit? Isn't that contradictory?

BROOKES: No, it's not. I don't think it is contradictory. I use the example of Bradley Dewey, who came back from France in 1936 with this idea of Cryovac. He had this vision of this process that would make it possible to do all kinds of things, to basically revolutionize the distribution of perishable foods, particularly meats and poultry. He was almost single-minded in pursuing this vision, and he was a colossal economic and financial failure for a long time—in fact, until 1953, to be exact—during which time his accountants, his controllers, as Harvard Business School types, were saying, you've got to stop this thing. Ultimately, of course, Cryovac turned into an enormous profit-maker and confounded his accountants and his maximizers in the short-term sense of the word. Now, maybe they weren't in your sense of the word...

REASON: Well, they certainly didn't maximize profit in that case, did they?

BROOKES: No, they didn't.

REASON: So, what you're saying is that American business should look to the longer term.

BROOKES: Yes. And I personally feel that business schools such as Harvard's have created this quest for the short-term solution, this focus on the short-term approach.

REASON: Well, Lester Thurow has this theme, too, that the Japanese tend to be long-term in their thinking, and he keeps pounding on this and blaming American management. But if I were an American manager, I would be damn short-sighted too when I know that the Alcoa Corporation builds a tremendously efficient company and has the government's antitrust people come in and operate a divestiture proceeding, and when I see the tax rates, and giant deficits bouncing up and down...

BROOKES: Sure. I do blame the corporate tax system for a lot of the myopia that exists in corporate boardrooms today. But I spent most of my life in the business world, and I was continually struck by the difference between those who did have vision and those who did not. Where there is no vision, people perish. And I think part of what the business schools have failed to do is to put that heroic view, that heroic sense of vision, forward hard enough—to say, look, yes we must maximize profits, and we must deal with the short-term situation, but let's understand that it's the vision, ultimately, that brings the long-term consequences.

And what excites me about the economy today is that you look at these little pieces of plastic, paper, they're worth about a nickel or a dime...

REASON: You're holding a floppy disk.

BROOKES: Yeah. And on this thing is a piece of software that I paid $400 or $500 for. Now somebody is getting $400 or $500 not for a piece of plastic or a piece of cardboard. You are paying the $400 or $500 for his ideas. This, to me, is the exciting part about the economy we are moving into. It's an economy where people are being paid more and more for what they know rather than what they can physically move around and produce. I think that's exciting. I think that the whole revolution that is going on in high technology is the possible unleashing of a level of value that we don't even have accounting systems to add up now. We don't even know how to account for this kind of value. The values are shifting so constantly. What is it worth to you? Well, it's worth whatever you're willing to pay, obviously. A whole realm of things is coming out of people's heads, out of people's minds—that's what wealth is. That's what I call the economy in mind. Obviously, we are going to pay more and more for people to be thinkers, to be productive mentally. That's where we are headed. I see that as the ultimate extension of my Adam Smith tie, because once we reach the point where everything of value is coming out of consciousness, we have the basis for the perfectly free economy. I regard this as the ultimate. I mean, here I am sitting, I sit here in this little office, and I turn out a column that pays me a pretty good income now. I turn it all out of my head, and yet it's all being manufactured in my home.

REASON: The great liberator.

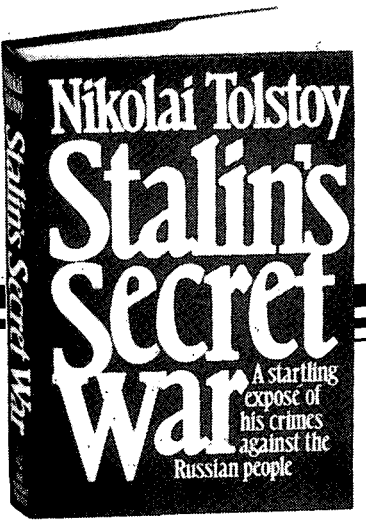
BROOKES: Sure, and decentralization. I mean, God, that's the greatest thing that's ever happened, you know, in terms of decentralizing the economy. *This* is the break-up of the corporate state.

REASON: And you're pointing to your personal computer.

BROOKES: Sure. ◻

"A STUPENDOUS BOOK"

— Joseph Sobran
National Review



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Liberals forever remind us that the Soviet Union lost twenty million people in World War II. Nikolai Tolstoy (grandnephew of Leo) puts the figure even higher. But he argues that most of them were killed by Stalin himself....

He was incomparably the richest man who ever lived: "Stalin virtually owned the Soviet Union in as absolute a sense as property can acquire." When a dog in the street woke him with its barking, he had dog and master shot. A series of painters who produced insufficiently flattering portraits of him — five-feet-four, scrawny, scrofular — were also shot. While the proletariat was reduced, at times to cannibalism, he had mountains of caviar specially flown to his enormous personal estate, where he watched the American gangster movies he loved....

He drove one wife to suicide, obscenely abused his daughter for wanting to marry a Jew, beat and insulted a son, whom he later allowed to die unransomed in a German prison camp. He delighted in tormenting his highest confederates — including the nominal president of the USSR, Kalinin — in front of foreign dignitaries...

With his own criminal example he encouraged what one trusts was by far the most brutal period of violence in human history. Even *The Gulag Archipelago* hardly prepares one for this. One example will convey the tone: a man who would not "confess" to Trotskyist activities even after castration was forced to watch his pregnant wife beaten until she delivered a stillborn child. Such things were done thousands upon thousands of times, year after year after year. Special instruments of torture were apparently mass-produced, one for squeezing the skull, another for the testicles, and so forth, though interrogators were permitted to use broken bottles, ice picks, or whatever other conventional tools appealed to them....

There was apparently only one foreign head of state Stalin really trusted. He was paralyzed with shock and incredulity when Adolf Hitler broke his word by attacking Russia. For days he could barely compose himself sufficiently to order the usual potential enemies shipped off to labor camps; but eventually he did, even when he couldn't formulate a battle plan against the Germans.

It was always the domestic enemy he feared most: the kind of wartime revolt that had toppled Kerensky. Stalin did indeed make unremitting war on his own people; he never really understood why they didn't fight back, and he was amazed at the patriotism that drove them to fight for Russia, despite everything, when Hitler invaded.

Instead of returning the favor, he stepped up his pre-emptive purges all the while his people were saving his skin. It is wickedness of an astounding degree. This book makes *The Rise and Fall of the Third Reich* seem like Restoration comedy.

Tolstoy, who is worthy to inherit the name, interprets the slaughter of the Polish officers in the Katyn Forest as one of Stalin's attempts to forestall domestic revolt: the officers might have given potential rebels in the western part of the Soviet Union the leadership they needed, igniting a general uprising.

Just before his death Stalin was contemplating an invasion of Western Europe.

Stalin's Secret War is a stupendous book.

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VIEWPOINT

Weep Not for the Wizened

BY JAMES DALE DAVIDSON

Have you ever wondered why the wealthiest man in the United States is entitled to ride for half-fare on any bus? Answer: He's over 65. He's also entitled to Social Security benefits (read windfalls) and taxpayer-subsidized medical treatment (Medicare), and he can see *Jaws 3-D* on a special senior discount at any American Multi-Cinema.

I don't begrudge anyone *Jaws 3-D.* Nor billions. Indeed, I wish everyone good health and a long life. What I don't understand is why I should be obliged to subsidize people who have a thousand times more assets than I—merely because they are old.

Being old is nothing to gripe about. It's far more appealing than the alternative: being dead. Lots of people do die before they reach old age. *They're* the ones I feel sorry for—those who are crippled or hurt or who lose their lives altogether in youth or middle age. Someone who is now elderly has already lived a long life. If it was not a full life, that's his fault. I see no good reason that the elderly should become our prime national charity—especially when many are not even poor.

Look at the figures, and you find that the oldest portion of the population is the richest. The richest. They own more of the nation's real estate, stocks, and businesses than people in any other age bracket. Most of the elderly actually own their homes. Because of the mess they left the country in, many young people never will own their homes.

Not all the old are wealthy, of course. But even those without wealth and with below-average income can realize a higher standard of living than most of the rest of the population. Much of the income of the elderly, in the form of Social Security benefits, is tax-free. And their other income is taxed at lower rates, because they have twice the number of exemptions as persons under 65.

Furthermore, the elderly have lower expenses than persons in other age brackets. Most don't work regularly and thus save thousands required for commuting, dressing for work, and having meals outside the home. Because they typically own their homes outright, having bought years ago at low interest rates, their housing costs, as a group, are lower.

In short, Grandpa and Grandma may deserve our love, and maybe even our pity if their health has started to fail. But not just because they are old. Not because they have lived a long life. There's nothing pitiful about that.

And if we really get down to cases, the elderly have as much to apologize for as to crow about. They're the ones who voted for the politicians who left the country in the shabby shape it's in today. In fairness, they should pay part of the cost rather than using the system to plunder those who were unlucky enough to come along later. They voted in the Social Security system but didn't put it on a sound footing—or pay taxes themselves that were in any way commensurate with the benefits they are now drawing. A man who turned 65 in 1982 and retired in that year with a nonworking spouse would have collected every penny he ever paid into Social Security by the end of March 1983. He and then his widow, when he dies, will continue to collect benefits until after the turn of the century.

Politicians are bidding against one another to make these windfalls even greater. The hoppers in Congress are filled with bills to give elderly persons up to $10,000 in income-tax exclusions, an exclusive right to deduct real-estate taxes paid on rented apartments, exemption from penalties for underpayment of estimated tax, special home health-care subsidies, subsidized home repairs, "grandparents rights," and more.

At the same time the politicians proclaim that the oldsters are so pitiful as to deserve all this bounty, they prohibit any presumption that the elderly are incompetent. Age can now be used as a basis for refusing employment only with the greatest difficulty. One might be obliged to hire an elderly accountant at the same time the politicians tells us that he, but not his young client, may be excused for not paying his estimated taxes. Figure that one out.

Politicians pander to the old because they tend not to work and therefore have a discoverable interest as recipients of benefits from the government. There are tens of thousands of occupations in America. Those of working age who fill those jobs tend to vote in ways that narrowly promote the interest of the groups to which they belong. Farmers vote for price supports, auto workers for import quotas, doctors for restraint of trade in the medical industry, and so on. But retired farmers, auto workers, and doctors all want more benefits for retired people. In old age, they are united in greed, as they were once divided by it. The politicians sense this, which is why the oldest segment in our population will continue to exploit the rest of us; why we see the absurd spectacle of government investing more in the old than in the young.

While those who are now retired on Social Security will collect large multiples of the amount they paid into the system, those now working will be lucky to receive a large fraction of their contributions. The system is unfair and wrong. The next time someone proposes changing the national anthem, which happens every few years, I have a suggestion: that classic sung by the Ponytails in 1958, "Born Too Late."

Jim Davidson is founder and chairman of the National Taxpayers Union and author of The Squeeze.

Illustration by Susan Salladé

Policing Precious Profits

BY STEVEN K. BECKNER

In case you hadn't heard, a new regulation requires precious-metals dealers to report all of your bullion sales to the Internal Revenue Service. The regulation could radically change the way gold and silver are bought and sold. Even before the regulation took effect on July 1, it had given rise to enormous furor and confusion within the coin industry. It also set off a rush into numismatic (rare) coins, which are exempt from the rule.

The new regulation requires precious-metals dealers to keep records of customers' transactions and to provide the IRS with names, addresses, Social Security numbers, and the amounts paid. For the time being, dealers—whom the IRS defines as commodity "brokers" subject to the reporting requirements of last year's tax act—need report only their *purchases* of metal from customers, but not their *sales* to customers. An IRS official claimed that the agency has the statutory authority to demand reporting of all transactions, but "in an effort to lessen the burden we're not requiring that."

For the first year, precious-metals dealers can file "aggregate" reports of each customer's total annual sales. But in 1984, they must begin reporting each individual transaction.

Numismatic coins—coins that trade for a substantial premium over their metal content due to their rarity—have enjoyed a price surge in the wake of the new regulation. That's because, as the IRS official confirmed, the regulation "has no effect at all" on rare coins. The result was inevitable: "You can't even touch US gold coins," observed Mark Watts, owner of Gaithersburg Coin Exchange in Maryland. And Walter Perschke, president of Numisco, Inc., of Chicago, estimated in June that common-date US gold coins had risen by 20 percent within three weeks "entirely" due to the IRS regulation.

Despite all this, however, potentially useful ambiguities abound in the new regulation. For example, there is considerable dispute between the IRS and lawyers for major metals dealers over whether the law or the regulation really applies to bullion coins such as the Krugerrand or even to pre-1965 "junk silver" coins. Also, Section 311 of the Tax Equity and Fiscal Responsibility Act seems to apply primarily to stock and commodity brokers. But precious-metals dealers complain that the IRS has gone beyond the intent of Congress in defining them as "brokers."

"It's a clear case in which the IRS has gone far beyond the intent of Congress and created a nonenforceable regulation," declared Joe Cobb, a minority staffer on the House Banking Committee. "The intent of the law seems to apply to futures contracts, but the regulation is written to apply not only to commodity contracts but to the physical trading of anything the contract covers."

According to an official in the IRS Legislation and Regulation Division, a person who buys Krugerrands is "really buying and selling a commodity. It's a gold transaction, not a coin transaction." Burnett Anderson, Washington correspondent for *Numismatic News*, concurs. "Congress made it sweeping," he said. "It's clear they wanted to get at these big profits in hard assets."

But others maintain that the IRS's own regulatory language exempts bullion coins from the reporting requirement. The IRS defines "commodity" as "any type of personal property or an interest therein...the trading of regulated futures contracts in which has been approved by the Commodity Futures Trading Commission."

Well, there are no futures contracts in Krugerrands or any other kind of gold coins. An application was made to the CFTC last year but was withdrawn. There used to be a contract for bags of silver coins, but that contract has long since gone into suspension.

For that reason, James Hildebrandt, manager of Deak-Perera (Washington), declared, "We're taking the view that bullion coins are not reportable. We will not take [names and identification] unless we're required to." He added that the IRS "may have thought they wrote the regulation [to encompass bullion coins], but that's not what our lawyers say."

The regulation doesn't change the legal obligation to report capital gains in gold, silver, platinum, and so forth. Presumably it will make it easier for the IRS to enforce collection. But the IRS will be snowed under with masses of undigestable reports from every mom-and-pop coin shop right up to the big-time dealers. Then, too, at least until the IRS begins requiring the reporting of both ends of the transaction, it must rely on taxpayer oaths—the taxpayer's own unprovable assertion as to his original purchase cost—as the "basis" for determining gains or losses.

Luis Vigdor, the head of the recently formed Industry Council for Tangible Assets (ICTA), thinks that many precious-metals investors who believe in paying their taxes will nevertheless be loathe to subject themselves to the reporting requirement because of privacy considerations. Not only is there an element of risk in having your name, address, and holdings on record for any number of people to see, but many "really don't want to be on record because they remember that gold was once confiscated."

Because of such concerns, it is very likely that a black market in unreported precious metals will spring up. People will sell their holdings through the want ads, through underground dealers, and in Canada. Unfortunately, this will hurt many of the sound, existing firms. "What's going to happen is that the larger and better organized dealers' business is going to fall off dramatically," predicted Cobb, "because people are going to start looking for the most surreptitious ways of buying and selling."

On the other hand, Watts suggested, "Maybe people will resent it so much they'll go after gold even more." Glen Kirsch, partner in International Financial Consultants of Bethesda, Maryland, observed, "If people want something bad enough they'll get it. Sooner or later, someone finds a loophole." The numismatic loophole, through which many have already climbed, is a potential area for further profit, particularly once underlying gold and silver prices begin to rise with the likely revival of inflation next year.

So if you intend simply to buy and hold, or if you swap in and out of gold and silver, you probably need not have your transactions on record.

Steven Beckner is a financial reporter and columnist for the Washington Times.

Liberty Rises in the East

BY PATRICK COX

There is a man in Tokyo who may one day be remembered as the founding father of Japanese libertarianism. He is Dr. Takashi Urata. A gregarious, articulate scholar, Urata has turned a curiosity about social systems into a network of Japanese students and professionals who are familiar with the works of Ayn Rand, Ludwig von Mises, and Herbert Spencer.

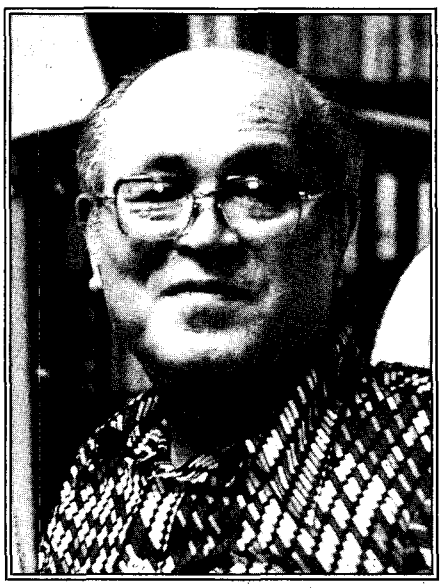
Urata's intellectual growth traces, strangely, to an illness he contracted in the '30s, when he was 17 years old. At the time, he was headed toward a career in the physical sciences, but tuberculosis sent him to rest in his father's country home in the Kochi prefecture. According to Urata, the Kochi prefecture has a long history, and the term "long history" means, in Japan, "opposition to government, and free thinking."

While recovering, Urata occupied himself with his father's extensive library. The illness led the holder of the second rank in kendo and middle-school record-holder in the 3,000-meter run to focus his energy on the literature of the finest Japanese and foreign authors, which piqued his interest in languages. Many of the works in his father's library were sociological, and Urata read both sides of the Marxist and communist debate. The lifetime theme of his research was postulated then—which social system is the best?

Very early, Urata pinpointed the flaw in Marxist dialectics—namely, that "the state will ever disappear." Urata says the idea is simply "preposterous." In the four years of his recuperation, he neglected the study of his previous interests, the physical sciences, but found himself nearly prepared to enter medical school, because his father, a physician, had stocked his library with mathematics and English, Chinese, and Japanese literature, the subjects that were included in the medical-school entrance exams. His father also advised him that medical school was a convenient way to avoid the draft and probably death in the Japanese military.

At the university, Urata was excused from physical training to help an instructor who needed a book translated into Japanese. So at age 22—four years before World War II—he translated the first of many works from English to Japanese. When prewar sentiments affected the university administration, Urata was forced to discontinue his translating and begin military training.

To avoid being drafted into the infantry, Urata joined the naval reserve. But another reason he gives for preferring the navy to the infantry was that the Japanese navy, generally, was against fighting the United States, while the



TAKASHI URATA

army had been urging the conquest of America for some time. Urata became a naval surgeon in New Guinea, but he continued to write, especially in medical journals. He proudly shows articles he wrote arguing for the Japanese to remain neutral in the Second World War. He correctly predicted the defeat of Japan by the United States, but his antiwar writing eventually was the cause of his assignment to the most dangerous areas.

Within three months of his discharge, his parents were killed and his home destroyed in the Nankai no Taishisai earthquake of 1946. Fortunately, his brother was away at the time, as was Urata, so they both survived. He then left Tokyo, which he considers the best of Japan, and went to Yokohama to teach. With a very good salary, he enjoyed the famous night life of that city until he opened his own medical practice in 1952 in Meguro, outside of Tokyo.

Because Urata has taught on and off for a total of over 20 years, he has been able to gather together people who are sympathetic to free-market, individual-rights ideas. In 1968 he started holding informal meetings, which in 1978 turned into fully organized "For Freedom" seminars. He has given over 40 alone on the work of the preeminent Austrian School economist Ludwig von Mises, whom he has translated extensively.

According to the Japanese scholar, a bright spot in his life occurred when he discovered an interview with Ayn Rand in an American *Playboy* of 1964. "I found that what she was saying was precisely my way of thinking," he says. "Certainly a unique philosopher had come forth." Urata has a collection of all of Rand's work, including her newsletters. Later, he was to discover Mises, whom he compares to Isaac Newton as an a priori expounder of the laws of the universe. Urata also helped translate Rand's *An Introduction to Objectivist Epistemology.*

Urata complains about the way that the American academic community treated Rand and her ideas as well as those who were so brash as to admit an interest in them. One of Urata's goals is to help make Mises respectable to the Japanese.

Urata plans to run his seminars for two more years before turning the organization over to Professor Murata, a disciple and former student of Mises's at New York University. When Japan socialized its health-care system in 1955, Urata cut back on his private practice and had more time to translate and write. The result is more than 20 books, and he is presently translating O. Henry's short stories and an original five-volume medical encyclopedia.

With the business of the seminars passed on to several younger people, Urata, now 68 years old, says he will write and translate more libertarian work and concentrate on the two central questions that have been his life-long concern—the mystery of life and the cause of war.

Patrick Cox is a frequent guest columnist for USA Today *and public affairs director of the Pacific Institute for Public Policy Research. Research for this Spotlight was provided by Dustin Baker and Noriko Yoshitake.*

arts & letters

MOVIES

Reviewed by John Hospers

Class

After a long series in the last few years of fatuous fraternity-college-academy films consisting mostly of slapstick pranks, *Class* is a film with class.

It has an unusual plot twist: an academy senior (Rob Lowe) who is inept with girls falls into the hands of a nymphomaniac twice his age (Jacqueline Bisset) who turns out to be the mother of his roommate (Andrew McCarthy). But this is simply the string on which the pearls of incidents are strung, incidents at once poignant and outrageously funny. The writing is taut and expert, the plot tightly controlled, and the whole effect is "something to make you feel good."

CLASS: The friendship of two prep-school students is tested when one has an affair with the mother (Jacqueline Bisset) of his roommate (Andrew McCarthy).

We are given no hint as to the cause of Bisset's predilections; but we do get a brief but revealing glimpse of the opinions of her tycoon husband (Cliff Robertson), an articulate spokesman for a mixed economy. "I want government to stay out of business," he asserts, but a moment later he demands that government grant special subsidies to his corporation. (Here, as elsewhere, the intelligence and incisiveness of the script are remarkable, in stark contrast to most current films.)

Fortunately, it requires no special subsidies to enjoy this film about growing up, in the worthy tradition of *Breaking Away* and *My Bodyguard.*

Twilight Zone: The Movie

At its best, Rod Serling's television series *Twilight Zone* could be eerie and even frightening. The same cannot be said for *Twilight Zone: The Movie.* Of its four episodes, only the last one succeeds.

Tales of poetic justice—for example, a hater of blacks waking up one morning to find himself black—are so common that they occur once or twice in almost every college writing class. In the movie's first episode, this theme is handled with no special imaginativeness. The only element that would have given the episode any punch was deleted because of actor Vic Morrow's death in a helicopter crash while the film was being shot.

The second episode, in an old people's home, is a story of old people who would like to be young again, but when they are actually given a chance, they change their minds. It is badly over-acted.

The third episode is more promising. A boy lures a young woman into his house, where every room contains a television set showing cartoons. He turns out to be the living embodiment of every child's purported omnipotence-fantasy—he can get whatever he wishes by simply wishing it to be so. But if he can get all his wishes, why isn't he able to get the affection he wishes for most? If the episode's moral is that people who get their wish aren't thereby made happy (and therefore we shouldn't get our wishes), what about the wish to become happy?

The final episode, which takes place on board a plane in a thunderstorm, is genuinely riveting in places. As always in films, when someone sees something (or perceives something via ESP) that nobody else does, and therefore nobody else believes him, the lone dissenter always turns out to be right. And so it is in this case when the man looking out the window of a storm-tossed plane sees a man on the wing.

Overall, not one of the movie episodes is half as significant or thought-provoking as the television series was.

John Hospers is the author of Understanding the Arts. *He teaches philosophy at the University of Southern California.*

BOOKS

Security, Not Supremacy

The Truth About the Neutron Bomb: The Inventor of the Bomb Speaks Out
By Sam Cohen
New York: William Morrow and Co. 1983. 226 pp. $12.50.

Reviewed by William Marina

The present debate and demonstrations, especially in Europe, over nuclear-weapons policy and missile-delivery systems can, to a great extent, be traced back to 1977 when the Carter administration discussed placing neutron warheads there. It is news when the "father" of the neutron bomb announces he has "jumped ship" with respect to current US military and foreign policies.

In the first chapters of *The Truth About the Neutron Bomb* Sam Cohen tells how, by accident, he came to be involved in the atomic bomb project at the end of World War II and "got hooked on tac-

tical nuclear weapons" in 1951. He came to oppose the massive "bomb 'em back to the Stone Age" approach of the air force, especially Gen. Curtis LeMay, which viewed tactical weapons as a threat to its strategic H-bomb capability.

It was Cohen's first-hand observation of the devastation of Seoul from conventional weapons during the Korean War that convinced him there ought to be some alternative to the terrible consequences of heat and blast that maimed human beings as well as devastated the landscape. This was also characteristic of atomic fission weapons, but these also produced lingering radiation.

It was not until 1958, however, with the development of fusion technology, that Cohen perceived the implications for tactical nuclear weapons:

By bursting the fusion device high off the ground, only the enemy-killing radiation would reach the ground; the blast and heat intensities that might reach the ground would not be powerful enough to cause any significant damage to built-up areas. This concept was in sharp contrast to that behind the battlefield fission weapons that we had deployed overseas at the time (and which are still deployed). Their use made large-scale physical damage unavoidable. There was another important difference—in the production of long-lived radioactivity. The fission-fusion neutron weapon would produce only one one-hundredth or even less of the radioactivity produced for a fission weapon with the same battlefield effectiveness, i.e., the same enemy troop killing power. The pure-fusion neutron weapon would produce none of the dangerous, long-range radioactivity produced by fission weapons.

Cohen's weapon was operable a few years later. Much of his book concerns the politics of the neutron bomb during the last two decades and is extremely illuminating. Eisenhower was out golfing, for example, and Cohen missed a chance to explain the concept to him. Kennedy managed to evade any decision, while Nixon was, even early in the 1960s, receptive to the idea. Cohen blames Kissinger for the fact that once in office after 1968, Nixon did nothing to implement a neutron strategy.

In the 1970s the army began to explore the use of neutron warheads on artillery shells, which stirred up the debate in 1977 over whether these ought to be built for use in Europe as a counter to Soviet conventional and tactical power there. After Reagan was elected, he decided to produce neutron warheads but to stockpile them in the United States rather than deploy them in Europe.

One chapter repeats the very effective briefing on the neutron bomb, with charts, which Cohen used over the years as a presentation for various politicians and policy planners. Much of the discussion is an effort to dispel the notion that the immediate radiation from a neutron bomb is somehow more inhumane than that of conventional or fission weapons. This is linked to a discussion of the moral

Sam Cohen

questions involved in the use of such a weapon, with some interesting insights into divisions within the Catholic hierarchy extending as high as the papacy itself. Cohen suggests that, given the level of technology involved, we ought to expect that the Soviets now also have the neutron bomb.

The most important part of the book, however, is toward the end where Cohen undertakes an analysis of US foreign-military policies, little of which is directly related to the question of the neutron bomb. As he points out, the bomb has always been a myth rather than reality, in the sense that any existing weapon is anywhere near what was envisaged.

In "jumping ship" Cohen raises some real questions about American strategic options. Whether by conventional or nuclear weapons, the basic problem is that American policymakers simply want to control too much, so that in seeking to do so they exhaust our resources and end up without a clear definition of real American interests or a sense of the limitations on American power. Thus he ridicules Pentagon planners who argue that the United States ought to maintain a Rapid Deployment Force capable of protecting oil coming out of the Persian Gulf, even though the cost is greater than the value of such oil and the major users are our European allies, none of which seems willing to pay such a bill.

The fundamental myth from which American policymakers operate, Cohen maintains, is a belief, noted 20 years ago by David Lilienthal, "that because the Atom is such a uniquely powerful force for destruction, a revolutionary kind of destructive power, in dealing with it we must divorce it, set it apart, from everything the human race has previously learned about man's behavior, about war and peace, about our institutions, about foreign policy, about military matters, about science."

Cohen argues that most of NATO's strategy is based upon a false assumption that the Soviets will not attack using nuclear weapons in Europe. The United States cannot defend Europe; and with us there, it is unwilling to defend itself. Bringing the troops back home would save over $100 billion a year. Instead of building an offensive force and visualizing a capacity to strike globally, like the Soviets, this country needs to develop a defense against nuclear attack rather than consider such an attack unthinkable.

The Soviets have an extensive air-defense system, continue research and development of antiballistic missiles, and promote civil-defense shelters. In moving toward the same, the money saved on conventional forces could be used to build a more efficient nuclear force, which "would be best if we were to think small—not big as we did in pushing the MX concept." Cohen once concocted a scheme using small, cheap missiles one-tenth the size of an MX, with neutron warheads, placed in small boats scattered across the sea. At this tactical level recent Midgetman proposals of the Scowcroft Commission indicate that Cohen may not have jumped ship as much as he thought.

But when he concludes that strategically "we should be withdrawing from the military aspects of world involvement," he is miles from the current thinking of the establishment, as he well knows. If "small is beautiful" is adopted as a tactic by the policymakers, it will be because they hope such flexibility and cost efficiency may make it possible to retain the country's global posture.

Since Cohen perceives the reality at this point, it is interesting that he does not extend that recognition backward in time. It is the best explanation of why the establishment, not the nuclear protesters, fought a tactical weapon that might have undercut a policy of world involvement based upon a global strike force. At whatever cost, American policymakers appear wedded to maintaining this supremacy, rather than contemplating a defensive strategy as advocated by Cohen, including as one possibility the tactical weapon he developed.

William Marina teaches policy analysis at Florida Atlantic University in Boca Raton, Florida.

Fair Theft?

Low Tax, Simple Tax, Flat Tax
By Robert Hall and Alvin Rabushka
New York: McGraw-Hill. 1983. 144 pp.
$18.95. $9.95 paper.

Reviewed by Jennifer Roback

Low Tax, Simple Tax, Flat Tax is an example of how unsatisfying sound economic analysis can be when offered without the support of moral arguments. Authors Robert Hall and Alvin Rabushka argue correctly that the present system of taxing higher-income brackets at rates of 50 to 70 percent reduces the incentive for the most economically successful members of society to work. They also argue correctly that the effort spent avoiding taxes is a net loss to society. Lawyers and accountants who spend their entire careers discovering tax loopholes for their clients could spend their careers doing something genuinely productive.

In a limited sense, this book is successful. The authors make correct points in a well-documented but readable manner. However, the book as a whole disappointed me and is likely to disappoint REASON readers. It disappoints, because the authors approach the moral aspects of taxation in an entirely conventional—and hence entirely unsatisfactory—way.

For instance, the authors tells us that "the flat tax is a protest against the dishonesty and cheating that has infected millions of otherwise law-abiding Americans," without ever questioning the premise that attempting to recover one's own income from the IRS is somehow cheating. At several points in the book, we are told that the flat tax is fair because it taxes everyone at the same rate. The authors never consider whether stealing equally from everyone is somehow more fair than random stealing or whether there can ever be such a thing as a fair method of confiscation.

But these omissions are the conventional ones. Hall and Rabushka are not radical libertarians and are not pretending to be. It would be asking a great deal to expect them to confront these issues in a book of this sort. However, there are other issues that I *did* expect them to address. These neglected topics, one a positive and the other a normative, constitute my major disappointment with this book.

The most important neglect is that there is no discussion of the effect of the flat tax on the growth of government. The authors discuss at length the effect of their tax reform on the incentives for taxpayers, but they never mention the incentives for tax leviers and tax collectors. There are plausible arguments on both sides of the question of whether a flat tax would encourage or restrain government spending.

On the one hand, taxpayers might be more likely to protest tax and spending increases under a flat tax. All taxpayers could see how much the government is costing them. No one could be misled into supporting a program because the rich will somehow be soaked to pay for it. Tax reform could eliminate the "tax illusion" that someone else will pay for your pet program. This argument holds more strongly, the greater the share of federal revenue raised through income taxes. If a program will be paid for by a gas tax, a telephone tax, a tariff, borrowing, or inflating, then of course the program will retain its appeal for the beneficiaries.

On the other hand, a simple, efficient tax code may encourage politicians to raise the overall level of taxation. The evidence of the withholding tax supports this conjecture. The income-withholding scheme was introduced during World War II. There is no doubt in my mind that the painlessness of collecting taxes via payroll deduction has contributed mightily to the growth of the federal government since World War II.

I would have expected Hall and Rabushka to argue, in support of their flat-rate proposal, that the flat tax would reduce "tax illusion." They do not explicitly mention the effect of the flat tax on the size of government. In fact, they hint that the flat tax might generate *more revenue* and that this would be advantageous: "[Liberals] fear that the rise of the underground economy and the tax cheating that high rates promote may reduce the flow of revenue to Washington D.C. and jeopardize the raft of government programs they have built over the past few decades. The flat tax can thus better serve the cause of liberals than the present system. It could provide more, not less, revenue to sustain government spending on social programs."

Now, of course, for a given tax level, full compliance with the tax code will generate more money than partial compliance. If this is all Hall and Rabushka mean by this statement, they are of course correct. But the more interesting question of whether a simple, efficient tax code will encourage politicians to raise the overall level of taxation is never discussed.

My second major disappointment with this book is that the authors do not challenge the prevailing view that progressivity is ethically desirable in a tax system. Throughout the text, Hall and Rabushka assure us that their flat-rate proposal is progressive, because it includes a large personal allowance. The

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poor pay a smaller fraction of their income in taxes than the rich, because the $3,800 personal exemption accounts for a larger fraction of a poor person's total income. So the Hall-Rabushka flat tax proposal is progressive, but less so than the current graduated tax system. I was amazed that the defenders of a flat-rate tax proposal take for granted that progressivity is good. The authors missed a golden opportunity to protest the punishment of ability and effort that a progressive tax implies.

On this issue, the contrast between the Hall-Rabushka approach and Milton Friedman's approach is enlightening. Friedman first advocated a flat-rate tax in the 1960s in *Capitalism and Freedom.* But one of Friedman's motivations was to *reduce* progressivity. As Friedman says, "I find it hard, as a (classical) liberal, to see any justification for graduated taxation solely to redistribute income. This seems a clear case of using coercion to take from some in order to give to others and thus to conflict head-on with individual freedom."

There are moral arguments to be made in favor of the flat-rate tax, as well. Hall and Rabushka don't make them. Even if they had made them, I think the moral arguments against the flat tax are more powerful. And, after all, avoiding taxes through the complex tax code is one of the few methods of protest and resistance that remains open to us.

In short, read this book if you want a thorough economic picture of the flat-rate tax. But don't expect to be persuaded by it.

Jennifer Roback is an economics professor at Yale University.

Might versus Rights

Sweet Land of Liberty? The Supreme Court and Individual Rights
By Henry Mark Holzer
Costa Mesa, Calif.: Common Sense Press. 1983. 224 pp. $14.95.

Reviewed by Robert James Bidinotto

The Constitution—chiefly through the Bill of Rights—concretized and implemented those "certain inalienable rights" proclaimed in the Declaration of Independence. These rights were specific expressions of the principle that every man is an end in himself—not a means to others' ends. Organized society and its ruling representatives (collective might) were to be legally limited, and barred from using individuals as mere subordinate instruments, by an inviolate moral principle (individual rights).

But almost everywhere else, throughout history, the law was premised not in inviolate moral principle but in moral relativism: the unrestrained caprices of groups and group rulers. Rights were mere privileges, granted and held only by sufferance of those exercising un-

Henry Mark Holzer

limited power. The American philosophy was based, then, in individualism. All others were variants of collectivism.

Yet from the beginning, America was wracked with residual philosophical conflicts. The tattered hand-me-downs of Old World collectivism had been, very briefly, packed away and seldom worn by the New World's founders. But never explicitly and ultimately discarded, it was only a matter of time before they again came out of the closet.

As interpreter of the Constitution, the Supreme Court has been on the front lines of this war of ideas. Henry Mark Holzer—professor of constitutional law at Brooklyn Law School and an attorney—has spent the past 20 years analyzing Supreme Court decisions concerning individual rights. With clarity, brevity, and uncompromising consistency, he has sketched an unflattering portrait of an institution that has inexorably acted to restore the supremacy of collective might over individual rights.

Choosing from the most explicit and precedent-setting cases, Holzer painfully dispatches the classroom myth that our judiciary, led by the High Court, has been a great voice for individual rights. His survey encompasses Court rulings on business, property, contracts, religion, speech, sex, even slavery—highlighting the philosophical rationales the justices offered for their decisions. Their pattern emerges clearly: liberal or conservative, dissenting or concurring, they have inevitably based their conclusions upon collectivist premises.

Consider conscription—clearly an example of subordinating the individual's life to the collective's ends. Appealing convictions based upon the Selective Draft Act of 1917, the defendants first argued that there is no draft power cited in the Constitution; thus, the Tenth Amendment would exclude Congress from claiming any such unauthorized power. The Supreme Court replied (Selective Draft Law Cases, 1918) that this argument "would seem to be too frivolous for further notice."

The defendants also argued that the act, in permitting religious exemptions, violated the First Amendment's prohibition of government contributing to "an establishment of religion." The Court again ignored their argument, saying its "unsoundness is too apparent to require us to do more." The main argument, however, was based upon the Thirteenth Amendment, which outlawed "involuntary servitude." Even ignoring Court precedents on the issue, the justices dismissed the argument, claiming: "We are unable to conceive upon what theory the exaction by government from the citizen of the performance of his supreme and noble duty of contributing to the defense of the rights and honor of the nation...can be said to be the imposition of involuntary servitude." The "theory" that eluded the Court was put forth in the second paragraph of the Declaration of Independence, which held that individual rights to "life, liberty, and the pursuit of happiness" are "unalienable."

To revert to the Old World philosophy of social relativism and collectivism, the absolutism of the rights concept had to be challenged. What totalitarian conspirator or foreign enemy could have undermined individual rights better than the Constitution's sworn guardian, the Supreme Court, in light of the following "principled" interpretation of the First Amendment (*Dennis* v. *United States*, 1950)?

Speech is not an absolute, above and beyond control by the legislature when its judgment, subject to review here, is that certain kinds of speech are so undesirable as to warrant criminal sanc-

tion. Nothing is more certain in modern society than the principle that there are no absolutes. . . . To those who would paralyze our Government in the face of impending threat by encasing it in a semantic straitjacket we must reply that all concepts are relative.

Throughout his survey, Holzer shows how statist precedents in one case are used to justify incursions elsewhere and how liberal interventions into the marketplace of material goods are cited to rationalize conservative interventions into the marketplace of ideas. For example, Chief Justice Warren Burger, a conservative, chides his liberal Court colleagues for opposing government censorship (*Paris Adult Theater I* v. *Slayton*, 1973): "Understandably those who entertain an absolutist view of the First Amendment find it uncomfortable to explain why rights of association, speech, and press should be severely restrained in the marketplace of goods and money, but not in the marketplace of pornography"—particularly, he adds, "by people who have never otherwise had a kind word to say for laissez-faire." Holzer's book will give inconsistent "defenders of freedom" scant comfort, for it spotlights the devastating consequences of exception-making in matters of moral principle.

It is difficult to read through this book without becoming angry at the vandalism that men harboring anti-individualist sentiments have inflicted upon our legal system. Yet Henry Mark Holzer's *Sweet Land of Liberty?* is—for all the indignation you may experience reading it—an indispensable aid to one's intellectual and legal self-defense. And its power to anger should spur many to challenge the perversion of our Constitution and spark a renewed debate over the real meaning of our nation's founding political philosophy. For that is a debate we need to renew with urgency.

Robert James Bidinotto is a free-lance writer.

The Newest Map of Hell

The Rainbow Cadenza
By J. Neil Schulman
New York: Simon and Schuster. 1983. 303 pp. $15.95.

Reviewed by Poul Anderson

Dystopia, the imaginary world worse than reality, may be as old in literature as utopia. In fact, the two are identical in the earliest example I know of, Plato's *Republic.* Not many of us today would want to live in that grim collectivist state.

Deliberately created dystopias appeared from time to time in the following millennia, usually as satires. After the First World War they really began to proliferate, and most of them were no longer in the spirit of fun or of moralizing. Rather, they became vatic. They described grisly futures that could conceivably develop out of the present. Surely this tells us something about the 20th century.

Looking closer, perhaps we can even learn something about different periods, of a decade or so, within that century. From the start, in several tales, H. G. Wells forecast devastating international conflicts. Aldous Huxley's self-petrified hedonism in *Brave New World* is a kind of epitome of the Jazz Age, as George Orwell's *1984* is of the Cold War era.

The mid-'50s saw such works as Kurt Vonnegut's *Player Piano*, about managerial overgrowth, and Frederik Pohl and C. L. Kornbluth's *The Space Merchants*, wherein the consumer culture has run wild. Later, John Brunner's *The Sheep Look Up* concerned itself with what we are doing to our planet. Meanwhile, nuclear doomsdays have been crowding the newsstands. I know this thought is an oversimplification, but still, it seems as if each epoch has had its characteristic dystopia, writing large its deepest fears.

If so, in *The Rainbow Cadenza* J. Neil Schulman has touched yet another nerve. The damned book haunted me for days after I read it. Not that it's a plausible prediction of what we are going to become—no science fiction story is, or ever has been. But this one makes some mighty disturbing suggestions about what we *are*: above all, in our latter-day obsession with sex.

Lest that put you off, let me hasten to add that it's a good, exciting read. The characters and their milieu come alive—you'll get to care about them. Schulman is extraordinarily inventive of the details that make a setting not only different from here-and-now but believable and fascinating. There's a lot of humor, mordant and otherwise, including a lot of puns, subtle and otherwise. While the story spans about 20 years, on the whole it keeps moving, and the pace accelerates.

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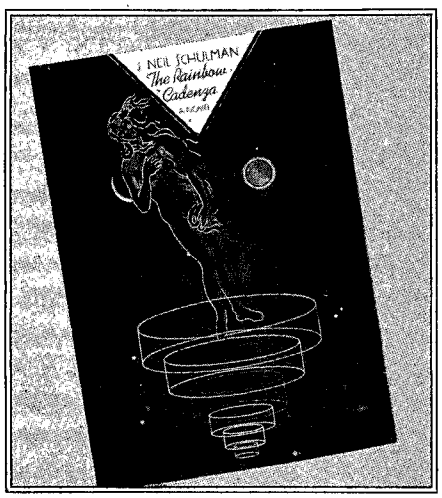
The background is too complex for me to do more than hint at it. Besides, finding your way around in it makes for quite a voyage of discovery. Civilization has survived at least two major wars, gained a world government of sorts, and progressed far in most material respects. Pollution, disease, and related problems appear to have been overcome. Spaceflight has opened the wonders and wealth of the solar system



to humankind. Biotechnology allows people to do everything from deciding the sex of their offspring to living healthily past the century mark and, under the right conditions, reversing death itself.

Yet this is a society as cruel and degraded as Nero's Rome. Males outnumber females seven to one—Schulman explains how that came about—with strange results, among them the drafting of young women for a term of service in public brothels. Resisters and other nonconformists, like ordinary criminals, lose all legal rights and become Touchables, subject to commercially sponsored execution in microwave ovens for minor infractions, or to rape, torture, and killing for sport. To identify both them and the privileged, electronic devices are implanted in children, linked to a global computer network. The catalogue of horrors goes on.

Almost everybody takes these horrors for granted—which may be the ultimate horror. One person argues at length that the system is good, demanding minimal sacrifice for the benefits it confers. Most whom we meet are decent and well-meaning by the standards of their time; some are in an absolute sense. Joan Seymour Darris, the heroine, is downright lovable, as are certain of her friends. The most evil character, at least on center stage, is her kinswoman Vera—but she is desperately unhappy, warped by circumstance, not choice.

The book follows Joan's career in lasegraphy, light shows having become as developed an art form as ever music was. The narrative is structured accordingly and contains several beautiful descriptive passages. Hope endures in the space colonies, which have gone their various independent ways. I wish the author had told us more about the libertarian one.

I also have a couple of nits to pick, notably Schulman's placing a geosynchronous satellite above the latitude of New(er) York and a colony at the L-2 point of the Earth-Moon system—that is not a stable position. A larger flaw is his interruption of things, chiefly in the earlier chapters, with long expositions in his own voice.

But this is praising with faint damns. Here, in his second novel, J. Neil Schulman has given us not only a fine story but a great deal to think about—perhaps especially if we consider ourselves sexually unprejudiced. Whatever he does next, which may well be as different from either foregoing book as they are from each other, it should be an event worth awaiting.

Poul Anderson is the author of Orion Shall Rise *(just published) and other science-fiction novels, as well as short stories and several nonfiction works on space.*

Breaking Out of the Big-Government Mold

Development Without Aid
By Melvyn Krauss
New York: McGraw-Hill.
1983. 208 pp. $18.50.

Reviewed by Lynn Scarlett

In an intellectual arena in which government planning and redistribution rather than growth have become synonomous with economic development, Melvyn Krauss is a voice in the wilderness. A few scholars, of course, such as Peter Bauer (*Dissent on Development*) never let up the plea for free markets and economic growth during the '70s. Melvyn Krauss joins these few, rekindling the case for private choice and initiative.

Krauss's most recent book, *Development Without Aid*, unabashedly argues "that big government in both the North and South constitutes the single most threatening force to the economic prosperity of the Third World." In contrast, much of the 1970s' development analysis placed the blame for underdevelopment on external forces—a decline in the terms of trade for raw materials, exploitation by multinational corporations, high energy prices, and more broadly, the remains of Western imperialism.

The first half of Krauss's book soundly repudiates this focus. The primary problems in the less-developed countries (LDCs), he claims, result from ruinous tax and spending policies *within* the Third World itself. This is not a new argument (a fact that does not diminish its importance). Even among advocates of big government, the dismal performance of so many LDCs has led to criticism of numerous domestic tax and spending programs. Almost without exception, however, these complaints have been accompanied by arguments merely for replacing one set of controls, manipulations, or interventions with another.

Krauss does not succumb to this folly. Instead, he staunchly supports cutting tax rates sharply to spur private-sector initiative and economic growth. Moreover, in contrast to many theorists, Krauss argues that development of roads, bridges, airports, and all the other elements of an "infrastructure" can only come in *response* to growth. Public-sector spending on infrastructure cannot generate growth.

Nor do redistribution policies benefit Third World economies and their poor. Food-price ceilings aimed at benefiting consumers do so at the expense of producers. Krauss aptly notes that "rice at a low price that is unavailable does not feed poor people."

Krauss is too generous when he says that laudable aims fuel the urge to pursue these devastating policies. It is far more likely that the road to hell (as he puts it) is paved not with good intentions but with political self-interest.

Krauss's exposition is a welcome addition to development literature, but he stops short, at least in this book, of denouncing government welfare programs altogether. In appealing for drastic reductions in taxes to stimulate Third World economic growth, Krauss is adapting the familiar supply-side theory of economics to less-developed nations.

In this context, Krauss observes that "for the Third World attention has centered on . . . whether public spending is to be financed out of economic growth or by high tax rates on a stagnant economic base." And supply-siders, he

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The Bill of Rights is dead—destroyed by the very institution that the framers of the Constitution designed to control the despotism of the state—the Supreme Court.

A Destroyer of Rights

For over two centuries the Supreme Court has enjoyed a reputation, popularly undisputed, of being the great protector of our unalienable rights to life, liberty, and the pursuit of happiness. In a powerful new book, Henry Mark Holzer, a distinguished professor of constitutional law, offers a dramatic challenge to this reputation. *Sweet Land of Liberty?* shatters the illusion that the Supreme Court has been the protector of your freedoms. It provides incontestable proof that the Supreme Court is our most consistent *destroyer* of individual rights, and always has been.

Bringing to bear almost twenty-five years as a lawyer, the last ten as Professor of Constitutional Law at Brooklyn Law School, the author systematically examines and dissects some sixty major Supreme Court decisions in seven crucial areas of the law—areas that touch the lives of every one of us: business, property, contracts, religion, sex, and slavery. Using direct quotes from the justices themselves, Professor Holzer shows that throughout its history the Supreme Court has consistently taken the position that the state is omnipotent over the individual. It has upheld the state's power to do such things as:

- interfere with legitimate religious practices
- censor what we say
- punish us for what we write
- control what we can see
- enslave innocent individuals

Clearly, this is not what we have been taught, and certainly it is not what the framers of the Constitution intended. In fact, it is directly contradictory to the purpose of the American Revolution.

The Road to Tyranny

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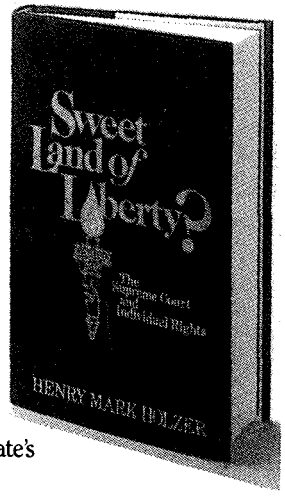
Professor Holzer leads the reader on a quest for the answer, and in the process provides a unique glimpse of the philosophical evolution of the Court. In one of the book's more startling revelations, it becomes clear that traditional distinctions such as "liberal" versus "conservative," or "strict" versus "loose" construction, are meaningless. Regardless of the political or ideological camp into which the justices have fallen, all have been responsible for the wholesale destruction of individual rights.

Every individual who is concerned about the future of individual rights will find *Sweet Land of Liberty?* to be a compelling and vitally important book. Order your copy today. Read it, and have your friends read it. *Until individuals understand what is happening, the destruction of liberty will not stop.*



About the Author

A constitutional lawyer and professor of law at Brooklyn Law School in New York, Henry Mark Holzer has been involved in the litigation of such diverse constitutional issues as the military draft, private gold ownership, legal tender, forfeiture of citizenship, imprisonment for debt, double jeopardy, and warrantless searches and arrests. He represented the late author Ayn Rand, and currently represents teenage Walter Polovchak ("the littlest defector"), seeking to prevent his forcible return to the Soviet Union.

Professor Holzer is the author of three books—*The Gold Clause, Government's Money Monopoly,* and his newest release, *Sweet Land of Liberty? The Supreme Court and Individual Rights.* He has published a variety of articles in newspapers and is consultant to state and federal legislators.

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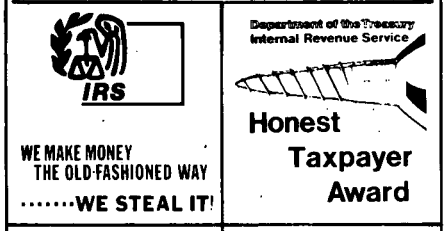

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notes, are "not necessarily opposed to increases in public spending per se, but they are against high tax rates to finance public spending. Indeed, it is in arguing that public needs can be more adequately met by low tax rates than high ones that the Laffer curve makes its principal contribution."

It is not clear in Krauss's presentation whether he is merely describing the theory or whether he is also endorsing it. Does he implicitly accept the effectiveness (and necessity) of public spending on welfare services, education, health, and so on, *provided* they are pursued with revenues resulting from low tax rates in a climate of rapid economic growth? Throughout the rest of the book, Krauss rigorously denounces such expenditures in industrialized nations, but in discussing supply-side economics he curiously makes no such denunciation.

Perhaps the most interesting feature of Krauss's discussion of disastrous domestic policies in the LDCs is not his analysis of their economic effects, especially if one already appreciates the benefits of free markets. More interesting and more original is his attempt to link the resulting economic chaos to political violence and even fascism. He sketches mini-scenarios of Uruguay, Ghana, El Salvador, and Costa Rica in which he analyzes their current political troubles in the light of their redistributive policies. While his portrayals may be overly simplistic, they do raise some important points, most particularly about the tight relationship between economic and political stability.

The second half of *Development Without Aid* contains Krauss's most thought-provoking and novel arguments. Here, he turns to the effects of the redistributive policies of the industrialized welfare states, the so-called developed nations, on Third World development. Many analysts have condemned the developed nations for their trade protectionism, which, in curtailing imports from the Third World, inhibits economic development. But most of these discussions of protectionism focus only on foreign-trade and foreign-worker policies.

Krauss goes a step further by analyzing the effects for the Third World of *domestic* workers' rights programs and redistributive policies in the industrialized nations. He shows how workers' rights programs that lead to subsidizing inefficient industries directly hamper Third World infant industries.

Prospects for Third World development have also been compromised by income transfer programs and stagnation induced by big government and a slow-growth mentality. Krauss's criticisms of these are not unique. What *is* original is the way he *links* these policies to foreign aid, showing them all to be different facets of the same doctrine. Krauss argues that aid is a foreign extension of the social democrat's commitment to redistribution. As such, aid is not only ineffective but actually harmful for LDCs. "Foreign aid constitutes another way big government subsidizes exports or foreign policy objectives. For the recipient country, foreign aid allows big government to pursue policies that damage the competitive sectors of the economy and thus its economic base."

To bolster his argument, Krauss points to South Korea and Taiwan, both of which had stagnating economies while they received US aid. Only when the aid stopped did each country pursue policies that resulted in economic growth and prosperity.

Apart from an occasional lapse into simplistic exposition, the only flaw that mars Krauss's work is in his explanation of *why* welfare policies and, especially, workers' rights policies, prevail in the industrialized nations. Krauss claims that it is not because special-interest groups have pushed for such policies and politicians have too easily succumbed to such pressures. Rather, he suggests that the public in general has come to perceive workers' rights policies as legitimate and just.

This proposition, however, seems to gloss too hastily over the political-systems analyses of interest-group politics and the incentives for political participation, including Mancur Olson's most recent work, *The Rise and Decline of Nations.* These works present a far more convincing explanation for such policies than does Krauss's theory. This is an important flaw in Krauss's work, because how one perceives the cause of big-government redistributive and workers' rights policies determines the solutions one proposes.

Generally, however, this is an excellent book. One might quibble over some details of Krauss's arguments, but it is refreshing to read an analysis of economic development that breaks out of the big-government mold.

Book Review Editor Lynn Scarlett is a Ph.D. candidate in political science, specializing in the political economy of Third World development.

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THE CLASSIFIED AD DEADLINE FOR THE DECEMBER ISSUE IS OCTOBER 1.

Further & More

DECONGESTANT

The latest word is that Hong Kong's "electronic road pricing" system (see Trends, June) will use differential fees—people who drive on the most congested roads at the most congested times will pay extra. As R. S. Taylor-Radford urged nearly two years ago in REASON, road-user fees, to achieve the most efficient use of the scarce resource of road space, should be related to the costs imposed by drivers.

Through the Hong Kong system, now in a pilot phase, motorists will be encouraged to choose whether and when to use their cars. The plan is to install about 300 electronic loops under the surface of the most congested roads in Hong Kong and to equip all vehicles with an electronic number plate. Drivers will be advised of the charges in effect at different points and times via electronic signs erected in front of each loop.

Drivers will be billed monthly—for an average $33, by current projections. The system is expected to pay for itself within a year. And the Hong Kong government predicts that the island will be doing a booming business in exporting the system's electronic components.

THE GAMES OAKLAND PLAYS

"All my life," sports writer Jim Murray confessed, "I had supposed eminent domain to be merely the right of a government to bulldoze some old lady's little fruit stand to make way for an expressway." This in response to a 1982 California Supreme Court ruling that Oakland's city government could sue to acquire the Oakland Raiders by eminent domain and prevent their planned move to Los Angeles (see "Football Slaves," Oct. 1982).

The Oakland pols took advantage of the opportunity and sued. In July, Monterey County Superior Court Judge Nat Agliano ruled that they could not recapture the National Football League franchise by exercising their power of eminent domain. If Oakland were to have its way, the judge sardonically predicted "campaigns for political office based on promises dealing with future draft choices, trades, player salaries and the hiring and firing of general managers and coaches. It is questionable whether these are proper governmental functions in any day and age."

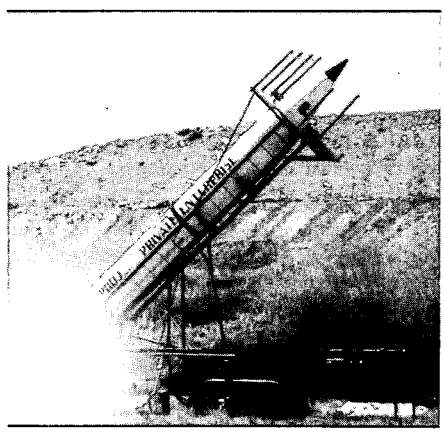
WEATHER NEWS

In a June investigative story, Patrick Cox reported on private weather-forecasting firms and the case for shifting weather services from the government to the private sector. There are now signs that the Reagan administration is continuing its moves in that direction in spite of the hue and cry surrounding the original proposal.

In July, *Aviation Week* reported that an advisory committee to the secretary of commerce is working on a draft request for proposals to transfer to the private sector the government's remote sensing (Landsat) or weather satellites or both. The request will be available for public comment in October, and the final request should be released in November. Bids would be due next February.

MR. BENNETT GOES TO WASHINGTON

James Bennett, a REASON author ("The Second Space Race," Nov. 1981) and a vice-president of Arc Technologies, testified recently before the House Subcommittee on Space Science and Applications on the potential of commercially financed space development. Apparently, the fact that Arc Technologies receives no government money and wasn't asking for any was a source of mystery to the subcommittee. An exchange between Bennett and an incredulous Rep. Harold Volkmer (D-Mo.) is typical:



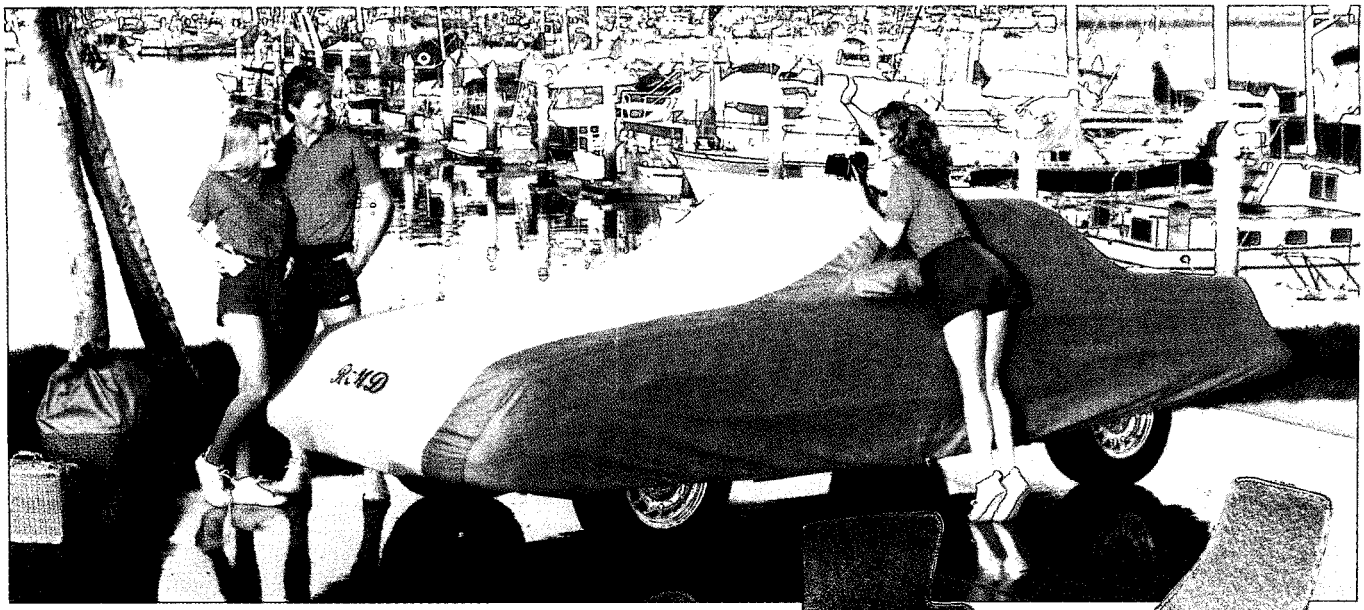
Volkmer: You are not at the present time having any agreements with NASA?
Bennett: No, sir, we do not.
Volkmer: You don't contemplate the need for any, is that correct?
Bennett: No. Our plans allow us to proceed to the point of launch and having our vehicle in service without either buying or selling anything to the government.
Volkmer: You also emphasize you see no need for government funding or government loans, or government grants, or anything else, to people involved in commercialization?
Bennett: No, sir. Our business plan projects us being able to provide the sort of service with no change in the current tax structure or economic. . .
Volkmer: No tax incentives? No guaranteed loans from the government?
Bennett: We do not require any of that, sir.

When the hearing concluded, Volkmer congratulated Arc Technologies "for your entrepreneurial spirit in the face of everything."

AD CAMPAIGN SURVIVES A BOUT OF BUREAUCRATIC FLU

In August we reported in Trends that a British drug manufacturer, Boots Pharmaceuticals, had launched a direct-to-consumer advertising campaign for its antiarthritis drug, Rufen, over Florida television ("Sluggish FDA Needs Pick-Me-Up," p. 21). In early summer, however, the Food and Drug Administration ordered Boots to stop the commercials. According to the FDA, the ads falsely represented the drug.

Boots then revised the ads, deleting any claims about the drug's performance and instead informing consumers only that Rufen is cheaper than its chemically identical competitor, Upjohn's Motrin. The FDA approved the new price-comparison ads. Boots then reaired the revised commercials, against the FDA's request that all manufacturers hold off on consumer ads for prescription products until the agency has fully studied the issue.



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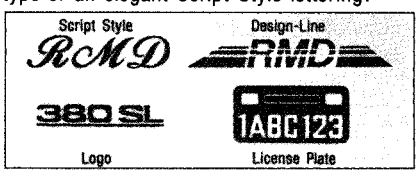
Protect your car's delicate finish and trim from the damaging effects of sunlight, dust, smog and rain; minimizing the expensive and time consuming maintenance required to keep it looking showroom new for years.

This state-of-the-art protective cover is a bold departure from other covers you've seen advertised for many reasons other than the distinctive two-color styling and personalized imprints. It's made from a breathable, specially treated, water-resistant poly/cotton material; thicker, softer and more durable than material used in any cover, sold at any price. Custom-tailored to your car, it features fitted mirror pockets and seams that are double-stitched with a special thread that expands to seal the seams when it gets wet. We've even sewn a wide elastic band into the bottom edge that keeps your cover snug and tight-fitting on the windiest of days.

CHOICE OF 4 IMPRINTS

Your initials, license plate number or car emblem is permanently imprinted front and rear at no extra cost. The personalized initials are available in a sporty Design-Line type or an elegant Script Style lettering.



FREE SECURITY SYSTEM

It comes with its own built-in security system and matching storage tote, features *most others charge extra for.* Our well-designed security system incorporates woven stainless steel panels sewn into the cover, a heavy plastic-coated stainless steel cable, combined with a unique locking system that virtually eliminates the possibility of theft.

PLUSH CARPET MATS

Protect your car's carpets with these luxuriously plush carpet mats. Our ultra-thick pile carpets will add extra comfort and elegance to your car's interior, and they have a special latex backing that prevents moisture from penetrating through to the original carpeting.

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These custom-cut mats are available for virtually any car or truck and are personalized with your initials permanently dyed right into them! Your 3 initials are available in either our sporty Design-Line type, or elegant Script Style lettering. Create a unique "His and Hers" set by selecting different initials for the driver's and passenger's side. These attractive plush mats are also available with your car's distinctive emblem or crest dyed into them.

40 CUSTOM COLORS

Choose from 7 standard colors; Black W/Silver Letters (A01), Black W/Tan (A02), Dark Brown W/Tan (D63), Sand W/Brown (E83), Midnight Blue W/Silver (C41), Burgundy W/Silver (B23) or Pewter W/Black Letters (A05), or send us a small clipping of carpet from under your seat or dash and we'll match it to one of our 40 custom colors.

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For those who are interested in further protecting their automotive investment, we have matching thick pile trunk and cargo area mats custom-cut for almost any import or domestic car.

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ESCORT: "A GENUINE BREAKTHROUGH"

—CAR and DRIVER

ESCORT WINS AGAIN!
MAY 1983 CAR and DRIVER TEST

"The Escort looks so comfortable, contented, and familiar at the top of the heap that it's hard to see that something new and special has been added... live with a new Escort for a while and you'll realize it has advanced new circuitry that should go down as a genuine breakthrough."

If you keep up with magazine tests, you know that ESCORT does more than just outperform other radar detectors. In its most recent evaluation, Car and Driver concluded: *"The Escort radar detector is clearly the leader in the field in value, customer service, and performance..."* But performance, as measured by warning distance, is *not* the new breakthrough. After all, ESCORT has been beating all comers since its introduction in 1978.

Now There's More To It

While long detection range is obviously essential it does *nothing* to solve a problem that has cropped up in the last year. In fact, increasing range by itself just makes the problem worse. If you already have a good superheterodyne unit, you know what we mean. A new generation of imported detector *transmits* radar signals, and can set off your unit as far as a mile away. The longer the range of your unit, the farther away you find them. As Car and Driver pointed out last November: *"Since there are far more detectors on the road than police radar units, interference... could become a genuine nuisance."*

Low Level Contamination

At first it was just an irritation. At least ESCORT owners had a way of distinguishing the polluters from the real thing. Our unique audio warning differentiates between the two police radar bands: it "beeps" for X band and "braps" for K band. The polluters' trashy signals triggered both warnings at once, and made a new sound—different than the sounds for police radar. (The rest of the industry didn't even know there was a new problem. Their detectors were making the same sounds as always, just more often.)

Radar Epidemic

As more and more of the "polluting detectors" hit the streets, the problem became more serious. If one of the "polluters" is approaching in an oncoming lane, the alarm from your detector is brief. But if it's traveling the same direction as you, your alarm can go on for *miles*. And the offending detector doesn't have to be in the car right next to yours. It can be ahead or behind, and up to a mile away. A very serious problem indeed.

Pollution Clean-Up

The problem required an entirely new approach. Examining the interference from these imports, our engineers discovered a subtle difference between their signals and those of police radar, even though they were on the same frequency. The solution, then, was to design new circuitry that would reject the pollution while—and this was the hard part—maintaining ESCORT's industry-leading response to pulsed and instant-on radar. We named it ST/O/P™ (STatistical Operations Processor), and it consists of a CMOS digital processor with built-in memory. ST/O/P is not simple, and it's not cheap. But it is, in our opinion, the most important breakthrough in radar detection since superheterodyne. Car and Driver would seem to agree: *"Now, all the world's Radio Shack detectors can hum right by your car in full microwave broadcast mode and your Escort will sit on your dash as politely and silently as a canary-fed cat."*

THE RADAR DEFENSE KIT

Peace of Mind

With ST/O/P, we've put the complications necessary to cope with today's radar problems inside—where they work automatically. Just install ESCORT, plug it into your cigar lighter, and turn it on. ESCORT does the rest. If you encounter a signal from a "polluting detector," ESCORT keeps quiet while maintaining its lookout for police radar. If the signal is the real thing, ESCORT immediately alerts you both audibly and visually. And, unlike other detectors that keep you guessing about the radar's location, ESCORT's signal-strength meter moves upscale as you approach and its variable-rate beeper/brapper pulses faster. You get the full story.

It's Simple

If you want the best, there's no reason to look anywhere else. But don't take our word for it. Try ESCORT *at no risk*. Open the box, install ESCORT on your dash or visor, and take 30 days to test it. If you're not absolutely satisfied, we'll refund your purchase *and* pay for the postage costs to return it. You can't lose. ESCORT is sold factory direct, so knowledgeable support and professional service are only a phone call or parcel delivery away. And we back ESCORT with a full one year limited warranty. Order today and let ESCORT change radar for you forever.

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By Mail: We'll need to know your name and street address, daytime phone number, and how many ESCORTs you want. Please enclose a check, money order, or the card number and expiration date from your Visa or MasterCard.

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